

**Before the
Federal Communications Commission
Washington, D.C. 20554**

In the Matter of)	
)	
2000 Biennial Regulatory Review --)	
Comprehensive Review of the	)	CC Docket No. 00-199
Accounting Requirements and)	
ARMIS Reporting Requirements for)	
Incumbent Local Exchange Carriers:)	
Phase 2)	
)	
Amendments to the Uniform System	)	CC Docket No. 97-212
of Accounts for Interconnection)	
)	
Jurisdictional Separations Reform and	)	CC Docket No. 80-286
Referral to the Federal-State Joint Board)	
)	
Local Competition and Broadband Reporting	)	CC Docket No. 99-301

**REPORT AND ORDER IN CC DOCKET NOS. 00-199, 97-212, AND 80-286
FURTHER NOTICE OF PROPOSED RULEMAKING IN CC DOCKET NOS. 00-199, 99-
301, AND 80-286**

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I. INTRODUCTION

1. In this order, we undertake the Commission’s second comprehensive, biennial review of the accounting rules and the Automated Reporting Management Information System (ARMIS) reporting requirements that apply to incumbent local exchange carriers (LECs). In so doing, we expand on the deregulatory initiative that the Commission began two years ago in its first, statutorily mandated review and streamlining of these rules.¹ This effort is driven, most immediately, by section 11 of the Communications Act of 1934 (Communications Act), which requires that we review every two years those regulations that are “no longer necessary in the public interest as the result of meaningful economic competition between providers of” telecommunications service.²

2. We read section 11 to require a review of our regulations with an eye toward achieving Congress’s goal, in the 1996 Act,³ of a truly “pro-competitive, deregulatory” national policy framework for the telecommunications industry.⁴ We recognize that any unnecessary regulation places a corresponding, unnecessary burden on the carriers that are subject to it. Furthermore, we have attempted, in this review, to be mindful that the national marketplace in which the regulated LECs operate continues to move toward a competitive model. Below, we attempt to strike an appropriate balance between the operations of the free market and a continuing need for some regulation. Accordingly, we do not flash cut to complete deregulation today. Rather, we endeavor to remove only those accounting and reporting regulations that are outdated or unnecessary.

3. Many of the regulations that we review in this order survive from the time of the government-sanctioned monopoly provider, when the Commission’s main function was rate regulation, which required extensive accounting and reporting information. Under the direction of the 1996 Act, we are moving to an environment in which competition will be the main force that sets rates. Thus, we come to our statutory task with the approach that we will not retain a particular regulation unless it advances a valid regulatory interest. The focus of much of our policymaking has shifted to implementing the mandates of the 1996 Act in such areas as local competition, universal service, and the deployment of advanced services, particularly in rural areas.

¹ See 1998 Biennial Regulatory Review – Review of ARMIS Reporting Requirements, CC Docket No. 98-117, *Report and Order*, 14 FCC Rcd 11443 (1999) (*ARMIS Reductions Report and Order*); 1998 Biennial Regulatory Review – Review of Accounting and Cost Allocation Requirements, CC Docket No. 98-81, *Report and Order*, 14 FCC Rcd 11396 (1999) (*Accounting Reductions Report and Order*).

² 47 U.S.C. §161.

³ Telecommunications Act of 1996, Pub. L. No. 104-104, 110 Stat. 56 (1996) (1996 Act). The 1996 Act amended the Communications Act.

⁴ Joint Statement of Committee of Conference, S. Conf. Rep. No. 230, 104th Cong. 2d Sess. 113 (1996).

4. Below, we adopt changes to our accounting rules that reflect a sharpened focus on ongoing regulatory needs in the areas of competition and universal service. Moreover, the changes we adopt today recognize the importance of changing technology with an eye toward identifying ways in which we can minimize the regulatory burdens and distortions that could undermine the development and deployment of such technology.

5. Our review leads us to four major accounting and reporting reforms. First, we substantially consolidate and streamline Class A accounting requirements. Second, we relax certain aspects of our affiliate transactions rules. Third, we significantly reduce the cost of regulatory compliance with our cost allocation rules for mid-sized carriers.⁵ And finally, we reduce the ARMIS reporting requirements for both large and mid-sized LECs. More specifically, we:

- ❑ Reduce the number of Class A accounts in Part 32 of our rules by forty-five percent, maintaining only those currently used in ongoing regulatory activities under the Communications Act and the 1996 Act;
- ❑ In response to state requests, establish new subaccounts for circuit and packet under digital switching, electronic and optical subaccounts under circuit equipment, and wholesale and retail subaccounts under services;
- ❑ Reduce the current Class B accounts in Part 32 of our rules by 27 percent;
- ❑ Eliminate certain inventory requirements in our rules;
- ❑ Allow carriers to adopt Statement of Financial Accounting Standard (SFAS) 116 for federal accounting purposes;
- ❑ Revise the affiliate transactions rules so that carriers are not required to do a fair market comparison for asset transfers that total less than \$500,000;
- ❑ Give carriers the flexibility to use the higher or lower of cost or market valuation as a ceiling or floor in valuing transactions with affiliates;
- ❑ Eliminate the need to do a fair market valuation in situations where third party sales amount to greater than 25 percent of total sales volume for that asset or service;
- ❑ Simplify how carriers record nonregulated revenues in the Uniform System of Accounts;
- ❑ Simplify deferred tax accounting;
- ❑ Modify our expense limit rules to include central office tools and test equipment in the \$2000 expense limit;
- ❑ Simplify how carriers separate regulated from nonregulated costs by permitting carriers to treat as regulated revenues certain activities that are not regulated;

⁵ A mid-sized incumbent LEC is a carrier whose operating revenue equals or exceeds the indexed revenue threshold and whose revenue when aggregated with the revenues of any LEC that it controls, is controlled by, or with which it is under common control is less than \$7 billion.

- ❑ Simplify the preparation of cost allocation manuals for Class A carriers by permitting them to allocate certain costs at the Class B level;
- ❑ Permit carriers to treat rates in interconnection agreements as tariffed rates for purposes of our cost allocation rules;
- ❑ Eliminate the requirement to do a revenue study analyzing the effect of proposed accounting standards changes prior to implementing those changes;
- ❑ Amend our accounting rules to expressly limit them to incumbent LECs;
- ❑ Modify ARMIS reporting for the large incumbent LECs to eliminate obsolete reporting requirements and to capture technological changes;
- ❑ Significantly streamline ARMIS 43-04, the Separations and Access Report, by reducing the report from 64 to 7 pages;
- ❑ Eliminate the cost allocation manual (CAM) filing requirements and the biennial attestation requirement for mid-sized LECs; and
- ❑ Significantly simplify the reporting requirements for mid-sized incumbent LECs by eliminating the requirement that they file ARMIS 43-02, 43-03 and 43-04 Reports.

6. In adopting these rule changes, we have attempted to steer a course that avoids both deregulation simply for its own sake and the countervailing temptation to retain rules that may no longer be necessary. Thus, we decline to adopt the proposal of the USTA to move even the largest LECs to the less detailed, Class B system of accounting. As we describe below, this decision is motivated by our conclusion that the higher level of detail of Class A accounts is necessary for the Commission to continue meeting its statutory obligations with respect to universal service. For similar reasons, we have chosen not to fully collapse the Class A accounts to the extent that USTA has advocated.

7. In addition, we adopt a Further Notice of Proposed Rulemaking addressing certain issues. Specifically, we:

- ❑ Seek to further develop the record on the appropriate circumstances for elimination of accounting and reporting requirements for incumbent local exchange carriers, including whether some or all requirements should be eliminated by a date certain;
- ❑ Seek comment on whether certain ARMIS information would more appropriately be collected through other means such as ad hoc data requests or our Local Competition and Broadband Data Gathering Program; and
- ❑ Seek comment on conforming amendments to our separations rules, necessitated by our modifications to the Uniform System of Accounts.

II. BACKGROUND

A. Accounting Requirements

8. Under the Commission's Part 32 rules, incumbent LECs record their costs and revenues in the Uniform System of Accounts (USOA).⁶ The USOA was intended to provide a financial-based system maintained in sufficient detail to facilitate recurrent regulatory decision making.⁷ Part 32 originated at a time when regulators were required or inclined to organize telecommunications costs in a manner that allowed a logical mapping of these costs to telecommunications rate structures. The states historically have relied upon our Part 32 accounts, rather than imposing different accounting requirements that might serve similar purposes.

9. There have been two classes of incumbent LECs for accounting purposes: Class A and Class B.⁸ Carriers with annual revenues from regulated telecommunications operations that are equal to or above the indexed revenue threshold, currently \$117 million, are classified as Class A; those falling below that threshold are considered Class B.⁹ Class A carriers – SBC, Qwest, Verizon, and BellSouth – have been required to maintain 296 Class A accounts,¹⁰ which provide more detailed records of investment, expense, and revenue than the 113 Class B accounts that Class B carriers are required to maintain.¹¹ The more generalized level of accounting required under Class B was established to accommodate smaller carriers, which number over 1,300.¹²

10. The Commission has used Part 32 accounting data for various regulatory purposes. For example, these data are used to allocate costs between regulated and nonregulated

⁶ 47 C.F.R. Part 32. The Part 32 USOA replaced the former Part 31 USOA on January 1, 1988. The establishment of a uniform system of accounts is mandated by section 220(a)(2) of the Communications Act. 47 U.S.C. § 220(a)(2).

⁷ See Revision of the Uniform System of Accounts and Financial Reporting Requirements for Class A and Class B Telephone Companies (Parts 31, 33, 42, and 43 of the FCC's Rules), CC Docket No. 78-196, *Report and Order*, 60 Rad. Reg. 2d (P&F) 1111 (1986).

⁸ 47 C.F.R. § 32.11.

⁹ See "Annual Adjustment of Revenue Threshold," *Public Notice*, DA 01-903 (rel. April 11, 2001) (adjusting annual indexed revenue threshold to \$117 million).

¹⁰ Other Class A carriers include ALLTEL, Citizens Communications, Cincinnati Bell, C-TEC, Sprint, Roseville, and CenturyTel. We have already taken measures to reduce accounting requirements for mid-sized companies and allow them to maintain their accounts on a Class B level. See *ARMIS Reductions Report and Order*, 14 FCC Rcd at 11449, ¶ 11.

¹¹ The difference in the number of accounts is that many of the Class A accounts are aggregated into summary accounts under Class B.

¹² The Commission has recognized that small carriers often have limited resources and have financial transactions that are smaller and fewer in number than the larger incumbent LECs. For example, in the *Joint Cost Order*, the Commission applied cost allocation standards and affiliate transactions rules to all local exchange carriers, but exempted the smaller carriers from the potentially burdensome enforcement provisions, e.g., CAM annual filing, an annual independent audit, and reporting requirements. See Separation of Costs of Regulated Telephone Service from Costs of Nonregulated Activities, *Report and Order*, CC Docket No. 86-111, 2 FCC Rcd 1298, 1330-31, ¶¶ 254-56 (1987) (*Joint Cost Order*), *recon.*, 2 FCC Rcd 6283 (1987), *further recon.*, 3 FCC Rcd 6701 (1988), *aff'd sub nom.* Southwestern Bell Corp. v. FCC, 896 F.2d 1378 (D.C.Cir. 1990).

activities under Part 64.¹³ Part 32 accounting data are also used in jurisdictional separations under Part 36. The dual system of federal and state regulation reflected in the Communications Act requires the separation of common carrier costs and revenues between interstate and intrastate operations. USOA data are used to accomplish this jurisdictional allocation.

11. USOA data are currently used to calculate universal service support, which enables carriers serving high-cost and rural areas to provide local service at affordable rates.¹⁴ Non-rural carriers receive support based on the forward-looking economic cost of providing the services eligible for support, as determined by the Commission's universal service cost model. The Commission used accounting data to develop many of the input values used in the model. Rural carriers currently receive support based on their embedded costs, as reflected in their accounts.¹⁵

12. Finally, the accounting data reported in Part 32 accounts are also currently used to determine interstate access charges. Prior to the adoption of price cap regulation in 1991, access charges for all incumbent LECs were governed by Part 69 access charge rules. The USOA continues to be used, even with the Commission's adoption of price cap regulation for many incumbent LECs.¹⁶ For example, data recorded in uniform accounts are used to adjust price cap indices upward if a price cap carrier earns returns below a specified level in a given year. Price cap carriers may also seek exogenous adjustments based on actual cost changes.¹⁷ For example,

¹³ The Commission's rules under Part 64 require that joint and common costs incurred in providing regulated and nonregulated services be allocated so that regulated services do not subsidize nonregulated services.

¹⁴ The 1996 Act codified the Commission's historical commitment to promote universal service to ensure that all Americans have access to affordable, quality telecommunications services. In section 254 of the Communications Act, Congress directed the Commission, after consultation with the Joint Board, to preserve and advance universal service in the competitive environment that Congress envisioned by establishing specific, predictable, and sufficient support mechanisms. In the *Universal Service Order*, the Commission adopted a plan to replace the historical universal service support mechanisms with new support mechanisms that will be sustainable in an increasingly competitive marketplace. See Federal-State Joint Board on Universal Service, CC Docket No. 96-45, *Report and Order*, 12 FCC Rcd 8776 (1997) (*Universal Service Order*). Among other things, the Commission agreed with the Joint Board that federal universal service support should be based on the forward-looking cost of constructing and operating the network used to provide the supported services, rather than each carrier's embedded costs. *Universal Service Order*, 12 FCC Rcd at 8888, ¶ 199.

¹⁵ Although the Commission has determined that all carriers will eventually receive universal service support based upon their forward-looking costs, it has delayed application of a forward-looking cost model to determine support for rural carriers to allow them ample time to adjust to changes in support calculations that would result from such a transition. In the meantime, the Commission has permitted rural carriers to continue to receive support based on their embedded costs. See Federal-State Joint Board on Universal Service, Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers, *Fourteenth Report and Order, Twenty-Second Order on Reconsideration, and Further Notice of Proposed Rulemaking in CC Docket No. 96-45, Report and Order in CC Docket No. 00-256*, FCC 01-157 (rel. May 23, 2001)

¹⁶ The Commission required price cap regulation for the Bell Operating Companies and GTE, and permitted other incumbent LECs to elect price cap regulation. See Policy and Rules Concerning Rates for Dominant Carriers, CC Docket No. 87-313, *Second Report and Order*, 5 FCC Rcd 6786 (1990).

¹⁷ An exogenous adjustment allows a carrier to increase its prices to recover costs imposed on it by governmental or administrative action beyond its control.

in their 2001 annual access tariff filing, several carriers sought exogenous adjustments.¹⁸ Accounting costs are used to define claims for exogenous adjustments. In addition, a price cap LEC may petition the Commission to set its rates above the levels permitted by the price cap indices based on a showing that the authorized rate levels will produce earnings that are so low as to be confiscatory.¹⁹

B. Reporting Requirements

13. ARMIS is an automated reporting system developed by the Commission in 1987 for collecting financial, operating, service quality, and network infrastructure information from certain incumbent LECs.²⁰ ARMIS was designed to provide federal and state policymakers with a database for monitoring activities associated with the provision of telecommunications services and the development of the telecommunications infrastructure without having to rely on ad hoc information requests.

14. ARMIS contains ten separate reports. The following chart summarizes (1) the name of the ARMIS Report; (2) the level of reporting required; and (3) the incumbent LECs required to file each report.

ARMIS Report	43-01 Annual Summary	43-02 USOA Report	43-03 Joint Cost Report	43-04 Sep. & Access	43-05 Service Quality	43-06 Cust. Satisfaction	43-07 Infra-Struct.	43-08 Oper. Data	495A Forecast of Investment Usage	495B Actual Usage of Investment
Level of reporting	Study area	Operating co.	study area	study area	holding co./ study area	holding co./ study area	holding co./ study area	operating co.	study area/ consol. access tariff area/ oper. co.	study area/ consol. access tariff area/ oper. co.
LECs	All LECs at	All LECs at	All LECs at	All LECs at	All price cap	Mandatory	Mandatory	All LECs at	All LECs at	All LECs at

¹⁸ See, e.g., Ameritech Operating Companies 2001 Annual Filing, Transmittal No. 1270, Description and Justification, section 2; BellSouth 2001 Annual Access Charge Tariff Filing, Transmittal No. 592, Description and Justification, section 6; Pacific Bell Telephone Company 2001 Annual Filing, Transmittal No. 37, Description and Justification, section 2; Qwest Corporation 2001 Price Cap Revisions Tariff Filing, Transmittal No. 76, Description and Justification, section 2.2.

¹⁹ All these cost recovery mechanisms remain in place even under recent access charge reform measures. See Access Charge Reform, CC Docket No. 96-262, *Sixth Report and Order in CC Docket Nos. 96-262 and 94-1, Report and Order in CC Docket No. 99-249, and Eleventh Report and Order in CC Docket No. 96-45*, 15 FCC Rcd 12962 (2000) (*CALLS Report and Order*). The measures were proposed by the Coalition for Affordable Local and Long Distance Service (CALLS), a group that included AT&T, SBC, Bell Atlantic (now Verizon), BellSouth, GTE (now Verizon), and Sprint.

²⁰ See Automated Reporting Requirements for Certain Class A and Tier 1 Telephone Companies (Parts 31, 43, 67, and 69 of the FCC's Rules), CC Docket No. 86-182, *Order*, 2 FCC Rcd 5770 (1987), *modified on recon.*, *Order on Reconsideration*, 3 FCC Rcd 6375 (1988). In 1990, the Commission added reporting categories for service quality and infrastructure development. See Policy and Rules Concerning Rates for Dominant Carriers, CC Docket No. 87-313, *Second Report and Order*, 5 FCC Rcd 6786, 6827-30 (1990).

that file	or above thresh- old	or above thresh- old	or above thresh- old	or above thresh- old	LECs	price cap LECs	price cap LECs	or above thresh- old	or above thresh- old	or above thresh- old

15. Currently, only 52 out of over 1300 incumbent LECs are required to file ARMIS reports on an annual basis.²¹ Class A carriers are required to file four ARMIS reports that collect financial information: ARMIS 43-01, which is a summary report, ARMIS 43-02, which collects basic accounting information, ARMIS 43-03, which collects information on how costs are allocated between regulated and nonregulated activities, and ARMIS 43-04, which collects information about how costs are allocated between the federal and state jurisdictions.²² Supporting data for the ARMIS 43-03 Report are collected in two reports: Form 495A (Forecast of Investment Usage Report) and Form 495B (Actual Usage of Investment Report). The ARMIS 43-05 Service Quality report is filed by all price cap incumbent LECs.²³ The ARMIS 43-06 Customer Satisfaction Report and ARMIS 43-07 Infrastructure Report are filed by mandatory price cap incumbent LECs.²⁴ The ARMIS 43-08 Operating Data Report is filed by all Class A incumbent LECs.²⁵ These ARMIS filings provide information on incumbent LECs serving more than 90 percent of the nation's telephone customers.

C. History of this Proceeding

16. In Phase 1 of this comprehensive review of accounting and reporting requirements, the Commission streamlined the Part 32 accounting rules and ARMIS reporting requirements by, *inter alia*, reducing the total number of Class A accounts and subaccounts by over 50 percent.²⁶ The Commission also reduced the reporting requirements for the ARMIS 43-

²¹ Specifically, 52 incumbent LECs have annual operating revenues exceeding the indexed revenue threshold and file financial ARMIS reports. These incumbent LECs include the operating companies of Verizon (19 operating companies); SBC (9 operating companies); BellSouth; and Qwest. The other 22 incumbent LECs are considered mid-sized carriers. They are Cincinnati Bell (1 operating company), C-TEC (1 operating company), Sprint (13 operating companies), ALLTEL (5 operating companies), and Citizens Communications (2 operating companies).

²² The largest incumbent LECs file such reports using Class A accounting information, while the 22 mid-sized incumbent LECs report at the Class B level.

²³ There are 93 price cap LECs subject to service quality reporting requirements. They are Verizon (19 operating companies); SBC (9 operating companies); BellSouth (1 operating company); Qwest (1 operating company); Sprint (17 operating companies); Citizens Communications (45 operating companies); and Cincinnati Bell (1 operating company).

²⁴ There are 30 mandatory price cap incumbent LECs that are subject to customer satisfaction and infrastructure reporting requirements. They are Verizon (19 operating companies); SBC (9 operating companies); BellSouth (1 operating company); and Qwest (1 operating company).

²⁵ Specifically, the same 52 incumbent LECs that have annual operating revenues exceeding the indexed revenue threshold and file the financial reports.

²⁶ Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers: Phase 1, CC Docket No. 99-253, *Report and Order*, 15 FCC Rcd 8690 (2000) (*Phase 1 Report and Order*). Specifically, in Phase 1, the Commission eliminated the expense matrix filing requirement; allowed carriers to reduce the CAM audit requirement from an annual financial statement audit to a biennial attestation engagement; relaxed the affiliate transactions rules for services; eliminated the 15-day pre-filing requirement for certain CAM changes; eliminated the 30-day notification

02 USOA Report by revising certain tables, eliminating several other tables, and establishing new threshold levels for certain reporting items.

17. In the Phase 2 *Notice*, the Commission sought comment on proposals to further revise the accounting rules and ARMIS reporting requirements in the near term by streamlining the chart of accounts, revising the affiliate transactions rules, modifying other accounting rules, and streamlining the ARMIS reporting requirements.²⁷

18. Subsequent to the release of the *Notice*, the Commission adopted the recommendation of the Federal-State Joint Board on Separations to impose an interim freeze of Part 36 category relationships and jurisdictional allocation factors for price cap carriers and allocation factors for rate-of-return carriers.²⁸ As directed by the Commission, the Common Carrier Bureau sought comment on streamlining ARMIS 43-04, the Separations and Access Report.²⁹

19. In the Phase 3 *Notice*, adopted concurrently with the Phase 2 *Notice*, the Commission undertook a broader examination of Part 32 and ARMIS reporting requirements to determine what additional deregulatory changes should be made as competition develops in the local exchange market. We will address Phase 3 issues in a subsequent order in this docket.

D. Ongoing State Role in Revisions to the Uniform System of Accounts

20. Under our system of dual regulation, the Commission and the states work together as partners.³⁰ Section 220 of the Communications Act provides states a unique partnership role in developing the uniform system of accounts.³¹ Through this partnership, the

requirement for establishment of temporary or experimental accounts; allowed carriers to record contingent liabilities without Commission review; eliminated the reclassification requirement for certain property held for future use; and eliminated the reclassification requirement for certain plant under construction.

²⁷ 2000 Biennial Regulatory Review – Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers: Phase 2 and Phase 3, CC Docket No. 00-199, *Notice of Proposed Rulemaking*, FCC 00-364 (rel. Oct. 18, 2000) (*Notice*). Twenty-nine parties filed comments and 21 parties filed reply comments in Phase 2. Appendix A contains a list of the commenters and their abbreviated names. After reviewing the comments, the Commission sought further comment on streamlining Class A and Class B accounts. See “Commission Seeks Further Comment in Phase 2 of the Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers,” *Public Notice*, DA 01-1403 (rel. June 8, 2001) (*June 8 Public Notice*). Twelve parties filed comments and six parties filed reply comments to the *June 8 Public Notice*. These comments are referred to herein as “PN Comments” and “PN Reply Comments.”

²⁸ Jurisdictional Separations and Referral to the Federal-State Joint Board, CC Docket No. 80-286, *Report and Order*, FCC 01-162 (rel. May 22, 2001) (*Separations Freeze Order*).

²⁹ See “Common Carrier Bureau Seeks Comment on Proposed Streamlined ARMIS 43-04 (Jurisdictional Separations) Report,” CC Docket No. 80-286, *Public Notice*, DA 01-1496 (rel. June 22, 2001) (*ARMIS 43-04 Public Notice*).

³⁰ See GSA Reply Comments at 5.

³¹ Section 220(i) of the Communications Act provides that “[t]he Commission, before prescribing any requirements as to accounts, records, or memoranda, shall notify each State commission having jurisdiction with respect to any carrier involved, and shall give reasonable opportunity to each such commission to present its views, and shall receive and consider such views and recommendations.” 47 U.S.C. § 220(i).

Commission has developed an accounting system that almost every state uses.³² For example, the State of Alaska uses our USOA to determine local service rates as well as for evaluating unbundled network element (UNE) and interconnection rate proposals and arbitrations.³³ Alaska also uses the USOA to determine intrastate access charges, evaluate the allocation of the Alaska Universal Service Fund support, and evaluate proposed tariffs.³⁴

21. Uniformity provides efficiency to the regulatory process for both federal and state regulators because regulators need only have expertise in one accounting system.³⁵ Uniformity among states allows regulators or other interested parties to compare and benchmark the costs and rates of incumbent carriers operating in various states.³⁶ A comparative analysis of these costs could be hindered, at least to some extent, if that data were too aggregated. At a reduced level of detail, data could mask important inter-company differences in the utilization of various technologies and deployment of various types of plant. One goal of our reform of accounting and reporting requirements is to determine whether those regulatory benefits are outweighed by the burdens imposed on carriers and ratepayers.

22. We recognize that our federal accounting system has a significant impact on state regulatory processes. The Commission has specifically sought the input of the states in this proceeding. Prior to the Phase 2 *Notice*, we held a series of teleconferences to seek input from the states in crafting proposals for the Phase 2 *Notice*. Subsequently, 24 state commissions³⁷ and the National Association of Regulatory Utility Commissioners (NARUC) filed comments, reply comments, or *ex parte* comments in Phase 2 of this proceeding. We have found the input of our state colleagues to be very valuable throughout this process. We are committed to soliciting further state input as we continue to streamline our accounting and reporting requirements.

III. DISCUSSION

23. In this order, we streamline many of our accounting rules and reporting requirements. As a preliminary matter, we note that several commenters observe that the record

³² See, e.g., Oregon Comments at 1; Wisconsin Comments at 4; ALTS Reply Comments at 10; Washington Comments at 2; Indiana Sept. 21, 2001 *ex parte* at 2. Wisconsin observes that many states have different levels of regulation and in some cases the incumbent LECs are still subject to rate-of-return regulation where the accounting needs may be greater. Wisconsin Comments at 4.

³³ Alaska Reply Comments at 3. The State of Alaska requires incumbent LECs with annual revenues of \$5 million or more to maintain their accounting records using the USOA Class A accounts. *Id.* According to Alaska, the USOA structure serves as the most useful and efficient tool for overseeing the fair and efficient implementation of competition, as well as to evaluate local service rates in the absence of competition. *Id.*

³⁴ *Id.*

³⁵ See, e.g., Oregon Comments at 2; Wisconsin Comments at 4; North Carolina Public Staff Comments at 3; Washington Comments at 2; Alaska Reply Comments at 4; Virginia Reply Comments at 1. Indiana observes that “requiring carriers to file the same form of report gives comparability between states that may not otherwise be possible.” Indiana Sept. 21, 2001 *ex parte* at 2.

³⁶ See Applications of NYNEX Corporation, Transferor, and Bell Atlantic, Transferee, for Consent to Transfer Control of NYNEX Corporation and its Subsidiaries, File No. NSD-L-96-10, 12 FCC Rcd 19985, 19994, ¶ 16 (1997).

³⁷ The states of Alaska, California, Florida, Idaho, Illinois, Indiana, Kansas, Maryland, Michigan, Montana, Nebraska, Nevada, New Hampshire, New Mexico, New York, North Carolina, North Dakota, Oregon, South Dakota, Utah, Virginia, Washington, Wisconsin, and Wyoming.

fails to provide any evidence of meaningful economic competition for local exchange services.³⁸ We are not, however, limiting our analysis to whether meaningful economic competition exists and therefore rule changes may be justified under the standard in section 11. Instead, we are going beyond section 11 to determine whether our accounting rules should be revised and streamlined to serve the public interest and how we can revise these rules to have validity today. We note that most of the rule changes adopted herein, including the addition of new accounts, are listed as proposals in our *2000 Biennial Regulatory Review Report*.³⁹ In addition, we have the inherent authority to consider at any time whether our rules should be repealed or modified; thus, we need not make a finding in this proceeding that meaningful economic competition exists in order to make rule changes. Considering whether other factors, such as technological changes or changes in the law, may have made certain regulations appropriate for modification is an efficient use of our resources.⁴⁰

24. Below, we discuss the streamlining that we accomplish in the chart of accounts first with respect to Class A accounts and then with respect to Class B accounts. Next, we detail the additional, substantial regulatory relief that we afford all of the carriers subject to our accounting rules. Following that, we review the changes we adopt for the ARMIS reporting system. Finally, we respond to the unique concerns of the smaller Class A, or mid-sized, carriers, providing these entities further relief in both their accounting and their reporting requirements.

A. Class A Accounts

25. Currently, there are 296 Class A accounts. In the *Notice*, the Commission proposed to eliminate one-fourth of the Class A accounts.⁴¹ Specifically, the Commission proposed to retain the Class A account structure for network plant and related asset and expense accounts⁴² and, for all other accounts, to consolidate the chart of accounts to Class B accounts. The Commission also sought comment on USTA's proposal to adopt Class B accounting for all

³⁸ See, e.g., AT&T Comments at 1 & Reply Comments at 2-5; XO Communications Reply Comments at 3; NARUC Comments at 4; ALTS Reply Comments at 6-7; Ohio CC and NASUCA Joint Reply Comments at 2-3; Ohio CC PN Reply Comments at 2. Qwest, on the other hand, contends that competition in the provision of interstate access services is robust, and it is those services on which the Commission should focus. Qwest Reply Comments at 8-9. See also Verizon Reply Comments at 4-5 (Verizon-east has provided over 2 million unbundled loops and over 2 million interconnection trunks to competitors.)

³⁹ See 2000 Biennial Regulatory Review, CC Docket No. 00-175, *Report*, FCC 00-456 (rel. Jan. 14, 2001) at ¶ 21 & note 23 (*2000 Biennial Regulatory Review Report*).

⁴⁰ See *2000 Biennial Regulatory Review Report* at ¶ 19.

⁴¹ See *Notice* at ¶ 17.

⁴² Network and related asset accounts consist of Accounts 2111-2682 and the related accumulated depreciation and amortization accounts in the 3000 series. Related expense accounts are all plant specific and plant non-specific accounts included in Accounts 6111-6565. The network and related asset accounts we proposed to retain, Accounts 2111-2682, include the Class A accounts for land, motor vehicles, aircraft, tools and other work equipment, buildings, furniture, office equipment, general purpose computers, analog electronic switching, digital electronic switching, electro-mechanical switching, operator systems, radio systems, circuit equipment, station apparatus, customer premises wiring, large private branch exchanges, public telephone terminal equipment, other terminal equipment, poles, aerial cable, underground cable, buried cable, submarine cable, deep sea cable, intrabuilding network cable, aerial wire, conduit systems, capital leases, and leasehold improvements.

carriers.⁴³ Commenters agreeing with USTA's proposal contend that Class A accounts are not needed for any regulatory purpose.⁴⁴ Many commenters, particularly state commissions, disagree with USTA's proposal to completely eliminate Class A accounting.⁴⁵ After reviewing the record, we sought further comment on additional consolidating, to reduce 296 Class A accounts to 178 Class A accounts.⁴⁶

26. Based on our review of the current USOA and the comments received in this proceeding, we conclude that our existing Class A accounting system can be significantly streamlined. We conclude that we can reduce the number of Class A accounts by forty-five percent, from 296 to 164 accounts. In particular, we conclude that we can substantially streamline the number of financial accounts. We also consolidate a number of current plant expense accounts, while preserving those accounts that the Commission and the state commissions use for ongoing regulatory activities. We add several new subaccounts to meet new needs.

1. Class A Accounts Being Eliminated or Consolidated

27. After reviewing the record, we conclude that we can reduce the number of Class A accounts, as proposed in the *Notice* and *June 8 Public Notice*, with some modifications. We are consolidating many of the financial accounts as well as some of the plant accounts. At the same time, arguments raised by some of the commenters persuade us to retain some of the accounts we proposed to eliminate. We remain open to future additional consolidation of Class A accounts in the event that future proponents provide more persuasive support that such consolidation is acceptable or appropriate than exists on the record before us here.

28. *Telecommunications Plant in Service – Cable and wire facilities assets.* In the *June 8 Public Notice*, we proposed to consolidate Account 2423, Buried cable, Account 2424, Submarine cable, and Account 2425, Deep sea cable, as well as the corresponding expense accounts: Account 6423, Buried cable expense, Account 6424, Submarine cable expense, and Account 6425, Deep sea cable expense. Several commenters disagree with this proposal.⁴⁷ New

⁴³ *Notice* at ¶ 16.

⁴⁴ *See, e.g.,* BellSouth Comments at 4.

⁴⁵ *See, e.g.,* AT&T Comments at 2-3 & Reply Comments at 6-9; AT&T Aug. 29, 2001 *ex parte* at 2; Florida Comments at 4; GSA Comments at 3 & Reply Comments at 6; Idaho Comments at 4; Maryland Comments at 3; NARUC Comments at 4-5 & Reply Comments at 2-7; New York Comments at 1-2; North Carolina Public Staff Comments at 3; Ohio CC and NASUCA Joint Comments at 5 & Reply Comments at 3-5; Ohio CC PN Reply Comments at 3; Oregon Comments at 1-4; RUS Comments at 2; Sprint Comments at 8; Utah Comments at 2; Wisconsin Comments at 6; Alaska Reply Comments at 4-5; ALTS Reply Comments at 4-5; California Reply Comments at 2; Virginia Reply Comments at 1; WorldCom Reply Comments at 1-3; XO Communications Reply Comments at 9-14; North Carolina Sept. 4, 2001 *ex parte* at 1-2; New Mexico Aug. 30, 2001 *ex parte* at Appendix; Illinois Aug. 24, 2001 *ex parte* at 1-2; NARUC Sept. 6, 2001 *ex parte* at Appendix A; North Dakota Aug. 31, 2001 *ex parte* at 1; Utah Aug. 31, 2001 *ex parte* at Appendix, p.1; Indiana Sept. 21, 2001 *ex parte*; Michigan Sept. 14, 2001 *ex parte*; Maryland Sept. 7, 2001 *ex parte*; New Hampshire Sept. 7, 2001 *ex parte* at 1. Several states filed brief comments, concurring with the comments filed by NARUC. *See, e.g.,* Illinois Comments at 1-2; Montana Comments at 1; Nebraska Comments at 1; Washington Comments at 1-2.

⁴⁶ *See June 8 Public Notice.*

⁴⁷ *See, e.g.,* New York PN Comments at 2; Sprint PN Comments at 2-3; GSA PN Reply Comments at 7; Ohio CC PN Reply Comments at 4; AT&T Aug. 29, 2001 *ex parte* at 3; New Hampshire Sept. 7, 2001 *ex parte* at 2; CompTel Oct. 3, 2001 *ex parte*; NASUCA Oct. 4, 2001 *ex parte* at 4. Verizon, on the other

York contends that the elimination of the submarine cable account would jeopardize its ability to conduct depreciation studies and to evaluate depreciation reserves.⁴⁸ Sprint opposes incorporating the submarine and deep sea accounts into the underground or buried cable accounts, thereby “contaminating” the underground and buried cable accounts with these expenses, because the underground and buried cable accounts are important in determining loop costs.⁴⁹

29. Based on these comments, we consolidate Account 2425, Deep sea cable into Account 2424, Submarine cable and consolidate Account 6425, Deep sea cable expense into Account 6424, Submarine cable expense. We note, however, that submarine and deep sea cables have plant characteristics dissimilar to buried cable. For example, the maintenance expenses can be much higher for deep sea cable than for buried cable.⁵⁰ Buried cable costs are used to develop inputs for the universal service high-cost model for non-rural carriers. The model does not include submarine or deep sea cable as an input value, so including buried cable in the same account would inflate maintenance expenses for buried cable. Accordingly, we have decided that the submarine and deep sea cable accounts should not be combined with buried cable because this could distort buried cable costs.

30. *Current liabilities.* In the *June 8 Public Notice*, we proposed consolidating Accounts 4010 and 4020 into one account -- Account 4000, Current accounts and notes payable. This proposal would eliminate Account 4040, Customers’ deposits. Oregon and New Hampshire disagree with this proposal, contending that they require detailed information relating to the balance of customer deposits.⁵¹ Illinois also opposes our proposal, arguing that Account 4030, Advance billing and payments, provides information that is useful in identifying and tracking unearned revenue.⁵²

31. Based on our review of the record, we will consolidate Account 4010, Accounts payable and Account 4020, Notes payable into new Account 4000, Current accounts and notes payable. We also will consolidate Account 4030, Advance billing and payments; Account 4050, Current maturities-long-term debt; and Account 4060, Current maturities-capital leases; and Account 4120, Other accrued liabilities into Account 4130, Other current liabilities. We will retain Account 4040 as a separate account, as that account is a current Class B account. The net result of this action is that Class A carriers will record liabilities in an identical fashion to Class B carriers, which is the relief sought by USTA.

hand, contends that there is no further need to break out these accounts because they share the same depreciation schedule as the other buried cable investment. Verizon PN Reply Comments at 4. Verizon also contends that eliminating this detail will have no practical impact, especially in light of the separations freeze under which the Class B accounts that combine all cable and wire will be assigned to categories based on frozen category relationships. *Id.* Notwithstanding depreciation or separations issues, we conclude that it is important to prevent including other expenses in the underground and buried cable accounts because such inclusion could distort loop costs of which underground and buried cable are important factors.

⁴⁸ New York PN Comments at 2.

⁴⁹ Sprint PN Comments at 2-3.

⁵⁰ When a maintenance problem develops in a deep-sea cable, the expense of locating and repairing the cable is much greater than for buried cable.

⁵¹ Oregon PN Comments at 1; New Hampshire PN Reply Comments at 3; New Hampshire Sept. 7, 2001 *ex parte* at 2. See also AT&T Aug. 29, 2001 *ex parte* at 2.

⁵² See Illinois Aug. 24, 2001 *ex parte* at 2.

32. *Local network services revenues.* In the *Notice*, the Commission proposed consolidating the Local network services revenue accounts (Accounts 5001 through 5069) into Account 5000, Basic local service revenue.⁵³ Several commenters disagree with our proposal to aggregate these revenue accounts.⁵⁴

33. After consideration of these comments, we consolidate these accounts into three accounts as follows: Accounts 5001 through 5004 will be consolidated into Account 5001, Basic area revenue; Account 5040, Private line revenue will remain disaggregated; and Accounts 5050 through 5069 will be consolidated into Account 5060, Other basic area revenue.⁵⁵ We do not further consolidate these accounts at this time in deference to the states' concerns that a separate breakdown of basic revenue from private line revenue serves state regulatory needs.⁵⁶ We encourage states to consider, however, alternative means to gather such information.⁵⁷ Therefore, for the time being, we are retaining these accounts.

34. *Network access service revenues.* In the *June 8 Public Notice*, we proposed to eliminate Account 5084, State access revenue. Some commenters argue that if we eliminate Account 5084 (State access revenue) and require these revenues to be included in Accounts 5081-5083 (end user, switched, and special access revenues), we must modify the ARMIS 43-04 Report so that the state and interstate amounts are reported separately.⁵⁸ Otherwise, in the absence of alternative approaches, neither the federal nor state commissions will be able to track the respective jurisdictional revenues.

35. We agree that we can eliminate Account 5084 as long as we require the proper reporting of jurisdictional revenues in ARMIS. Therefore, we eliminate Account 5084,⁵⁹ and adopt conforming reporting changes in the ARMIS 43-04 report.⁶⁰

⁵³ These accounts are Account 5000, Basic local service revenue; Account 5001, Basic area revenue; Account 5002, Optional extended area revenue; Account 5003, Cellular mobile revenue; Account 5004, Other mobile services revenue; Account 5040, Local private line revenue; Account 5050, Customer premises revenue; Account 5060, Other local exchange revenue; Account 5069, Other local exchange revenue settlements.

⁵⁴ See, e.g., AT&T Comments at 3 & Reply Comments at 9; New York Comments at 1 & PN Comments at 1; GSA Comments at 4; GSA PN Comments at 2-3 & PN Reply Comments at 6; WorldCom Comments at 2 & PN Comments at 3; Ohio CC PN Reply Comments at 4; New Hampshire Sept. 7, 2001 *ex parte* at 2-3.

⁵⁵ See WorldCom Comments at 2 & PN Comments at 3. See also Ohio CC PN Reply Comments at 4. The GSA also proposes that we consolidate these accounts: Account 5010, Area revenue; Account 5020, Mobile services revenue; Account 5040, Local private line revenue; and Account 5050, Other local services revenue. GSA Comments at 4 & PN Comments at 3.

⁵⁶ See, e.g., AT&T Comments at 3 & Reply Comments at 9; New York Comments at 1 & PN Comments at 1; GSA Comments at 4; GSA PN Comments at 2-3 & PN Reply Comments at 6; WorldCom Comments at 2 & PN Comments at 3; Ohio CC PN Reply Comments at 4; New Hampshire Sept. 7, 2001 *ex parte* at 2-3.

⁵⁷ See Further Notice of Proposed Rulemaking at paragraph 207.

⁵⁸ GSA PN Comments at 3 & PN Reply Comments at 6; WorldCom PN Comments at 2; Sprint PN Reply Comments at 2. Illinois recommends retaining Account 5084, State access revenue, as the best method of tracking and reporting state revenues. Illinois Aug. 24, 2001 *ex parte* at 2.

⁵⁹ Because we are eliminating the state access revenue account, we decline to add subaccounts to the state access revenue account for switched access, special access, and subscriber line charge accounts, as

36. *Miscellaneous revenues.* In the *Notice*, the Commission proposed consolidating the miscellaneous revenue accounts (Accounts 5230 through 5270) into Account 5200, Miscellaneous revenue.⁶¹ Commenters argue that Account 5230, Directory revenue should be retained because of outstanding proceedings at the state and federal levels.⁶² We recognize that directory revenue is generally a separate line of business, not miscellaneous revenue. Nevertheless, we are not persuaded that there continues to be regulatory benefit from a federal perspective associated with maintaining directory revenue separately from miscellaneous revenue. State commenters have raised legitimate state concerns about retaining data on directory revenues separately. We note that nothing we decide today restricts state commissions from receiving these data from carriers when state-specific reasons require them to do so. Therefore, on balance, we are adopting the proposal in the *Notice* and consolidating Accounts 5230 through 5270 into Account 5200.

37. *Plant nonspecific operations expense.* In the *June 8 Public Notice*, we proposed consolidating the depreciation and amortization expense accounts (Accounts 6561 through 6565) into Account 6560, Depreciation and amortization expenses. Commenters oppose our proposal, contending that Account 6562, Depreciation expense-property held for future telecommunications use is important in state rate cases.⁶³

proposed by the states. Wisconsin proposes adding two subaccounts to Account 5081, End user revenue: Subscriber line charge (SLC) and Non-SLC. Wisconsin Comments at Attachment A, p. 9. Wisconsin also proposes adding two subaccounts to Account 5082, Switched access revenue: Flat-rate (PICC) and Usage-based. *Id.* In addition, Wisconsin proposes adding five subaccounts, to Account 5084, State access revenue: SLC (end user), Non-SLC, PICC, Usage-based switched access, and special access. *Id.* See also Wisconsin PN Comments at 3; New Hampshire PN Reply Comments at 4. Commenters argue that these new subaccounts would be useful in analytical studies, such as in determining whether there is movement toward recovering nontraffic-sensitive costs via fixed charges and traffic sensitive costs via usage-based charges. See, e.g., GSA Comments at 5; Ohio CC and NASUCA Joint Comments at 6; Oregon Comments at 2; Wisconsin Comments at Attachment A, p.9; Ohio CC PN Comments at 5 & Reply Comments at 5. Verizon, however, argues that this would be difficult to administer due to the variety of rate structures in different states. Verizon Comments at 3. See also USTA Comments at 11.

⁶⁰ See Section III.D.5, *infra*.

⁶¹ These accounts are Account 5230, Directory revenue; Account 5240, Rent revenue; Account 5250, Corporate operations revenue; Account 5260, Miscellaneous revenue; Account 5261, Special billing arrangements revenue; Account 5262, Customer operations revenue; Account 5263, Plant operations revenue; Account 5264, Other incidental regulated revenue; Account 5269, Carrier billing and collection revenue.

⁶² See Ohio CC and NASUCA Joint Comments at 4 (*citing* Petition of US West Communications, Inc. for an Accounting Order, Washington Utilities and Transportation Commission Docket No. UT-980948, Fourteenth Supplemental Order and Order Denying Petition (2000) (holding that Yellow Pages publishing activity had not been transferred permanently to US West's affiliate for regulatory purposes and that the state commission could continue the practice of attributing – imputing – to US West a portion of the earnings of its affiliate from publishing the Yellow Pages); Ohio CC PN Comments at 4. See also Washington Aug. 16, 2001 *ex parte* at 1; New Hampshire Sept. 7, 2001 *ex parte* at 3. New York, Utah, and AT&T also argue that we should not consolidate these miscellaneous revenue accounts. New York PN Comments at 1-2; Utah Comments at 1; AT&T Aug. 29, 2001 *ex parte* at 2;

⁶³ New Hampshire PN Reply Comments at 3; Oregon PN Comments at 1. Illinois contends that we should retain Account 6562, Depreciation expense for property held for future use and Account 6563, Amortization expense-intangible. Illinois Aug. 24, 2001 *ex parte* at 2. Illinois explains that states, including Illinois, that use rate-of-return regulation would benefit from separate identification of amortization of intangible expense because these costs require special scrutiny. *Id.* Sprint also disagrees

38. We recognize that this account may be important to state regulators in cases where property held for future telecommunications use is excluded from the rate base. We note, however, that the amount in this account for year 2000, for all Bell Operating Companies (BOCs) combined, was \$168,000, which is less than .001 percent of the depreciation expense.⁶⁴ Due to the *de minimis* nature of this account, we will adopt our proposal to consolidate these depreciation accounts. We expect, however, that companies will provide these records to the state commissions, if needed for state rate cases.

39. *Customer operations expense and corporate operations expense.* We proposed to consolidate the Class A level expense Accounts 6610 through 6790, into Accounts 6610, 6620, and 6720.⁶⁵ WorldCom objects to our proposal, contending that these accounts are used in the determination of wholesale and retail rates and are major components of the forward-looking cost model used in the Universal Service Program.⁶⁶ With two minor modifications, we adopt this proposal.

40. After reviewing the record, we conclude that Account 6790, Provision for uncollectible notes receivable is not properly included in general and administrative because it relates to bad debts, not general and administrative expenses. General and administrative expenses are used to develop inputs for the high cost model for universal service purposes and should not include any expenses related to bad debts. Therefore, we will retain Account 6790, Provision for uncollectible notes receivable. In addition, we agree with WorldCom that, for universal service modeling purposes, we should retain Account 6613, Product advertising. Section 214(e)(1)(B) requires that all eligible telecommunications carriers must “advertise the availability of [the universal-service supported] services and the charges therefor using media of general distribution.”⁶⁷ Because these advertising costs are required costs to providing the

with our proposal, arguing that it is important to retain the detail accounts as potential tools for maintaining a check on the accuracy of RBOC cost studies. Sprint PN Comments at 3.

⁶⁴ See ARMIS 43-02 Report, Balance Sheet Tables.

⁶⁵ These accounts are Account 6611, Product management; Account 6612, Sales; Account 6613, Product advertising; Account 6620, Services; Account 6621, Call completion services; Account 6622, Number services; Account 6623, Customer services; Account 6710, Executive and planning; Account 6711, Executive; Account 6712, Planning; Account 6720, General and administrative; Account 6721, Accounting and finance; Account 6722, External relations; Account 6723, Human resources; Account 6724, Information management; Account 6725, Legal; Account 6726, Procurement; Account 6727, Research and development; Account 6728, Other general and administrative; and Account 6790, Provision for uncollectible notes receivable. In the *June 8 Public Notice*, we proposed to consolidate Account 6710, Executive and planning into Account 6620, Services.

⁶⁶ WorldCom Comments at 2 & PN Comments at 3-4. New York observes that consolidating the corporate operating expenses into one account would make regulatory audits more difficult and time consuming to conduct. New York PN Comments at 2. See also Utah Comments at 1; California Reply Comments at 2; Ohio CC PN Reply Comments at 4; New Hampshire Sept. 7, 2001 *ex parte* at 3. Illinois proposes retaining Account 6622, Number services, because a separate account would be useful in identifying directory related expenses. Illinois Aug. 24, 2001 *ex parte* at 2. Oregon suggests combining Accounts 6711 and 6710 and Accounts 6721 through 6728 into two accounts. Oregon PN Comments at 1. Illinois also opposed consolidating the 6700 accounts into one account because such a consolidation would make it difficult for state regulators to identify expenses that should not be borne by competitive carriers. Illinois Aug. 24, 2001 *ex parte* at 3. For example, Account 6722, External relations contains costs for non-product related corporate image advertising that Illinois does not allow to be recovered from ratepayers or carriers. *Id.*

⁶⁷ 47 U.S.C. § 214(e)(1)(B).

universal-service supported services, the expenses recorded in Account 6613 are required to develop inputs for the universal service model. If we eliminated this account as proposed in the *Notice*, all costs associated with marketing, product management, and sales would be recorded in the same account as product advertising expenses. This could inflate the forward-looking costs of the supported services. Maintaining product advertisement expenses separately will eliminate this problem and, thus, we do not eliminate Account 6613 as we proposed.

41. Other than Accounts 6790 and 6613, we adopt our proposals to consolidate the customer operations expense and corporate operations expense accounts, as set forth in the *June 8 Public Notice*. As a result, Accounts 6611 and 6612 will be consolidated into Account 6611, Product management and sales; Accounts 6621 through 6623 will be consolidated into Account 6620, Services, with subaccounts for wholesale and retail; Accounts 6710 through 6728 will be consolidated into Account 6720, General and administrative. Accounts 6613, Product advertising and Account 6790, Provision for uncollectible notes receivable will remain disaggregated.

42. Based on our review of the record, particularly the comments filed by state commissions, we conclude that the other Class A accounts that we proposed for elimination in the *Notice* and the *June 8 Public Notice* are not vital to our regulatory mission. We are therefore consolidating 296 Class A accounts into 164 Class A accounts because we no longer need the level of detail provided in those accounts. As technology and the regulatory environment changes, the need for accounting detail changes as well. Appendix B contains a list of the eliminated Class A accounts. Appendix C is the revised list of Class A accounts.

43. In the *Notice*, we also sought comment on USTA's proposal to eliminate the subaccounts in Account 2123, Office equipment. Based on our review, we conclude that the subaccounts can be eliminated. One of the subaccounts, Account 2123.2, is used to identify the investment in the telephone company's internal telecommunications system. The other subaccount, Account 2123.1, contains the other office support equipment. We agree with USTA that these subaccounts are no longer necessary. There are two subaccounts in Account 2231, Radio systems that identify distinct technologies: one includes the carrier's ownership interest in satellites and its investment in earth stations, the other records investment in other radio facilities. We conclude that these subaccounts are no longer needed in order to differentiate between these investments. In addition, we agree with USTA that the subaccounts in Account 2215, Electro-mechanical switching can be eliminated. These subaccounts distinguish between three types of electro-mechanical switches: step-by-step switching, crossbar switching, and other electro-mechanical switching. The investment in Account 2215 is minimal. We are combining this account with Account 2211, Analog switching and eliminating the subaccounts.

2. Class A Accounts Maintained

44. As noted above, the USOA has served various regulatory purposes over the years. We acknowledge that both our regulatory framework and the marketplace have changed significantly since the USOA was originally adopted.⁶⁸ Nonetheless, state and federal policymakers have an ongoing need for carriers to continue maintaining certain of the Class A accounts so that we may carry out our regulatory mission, as described below. We therefore reject USTA's proposal to adopt Class B accounting for all carriers.

45. First, we conclude that it is necessary to retain the Class A accounts relating to network plant and related asset and expense accounts to continue the Commission's

⁶⁸ The Part 32 USOA replaced the former Part 31 USOA on January 1, 1988.

administration of the universal service high-cost support mechanism. Currently, data collected in the Class A accounts and reported through ARMIS are critical to the calculation of high-cost support for non-rural carriers. In 1999, the Commission adopted a cost model to estimate non-rural carriers' forward-looking cost of providing the supported services, and concluded that support should be based on those cost estimates. At that time, the Commission used the USOA Class A accounting information to develop certain inputs used in the model. Aggregation of the Class A accounting information into consolidated Class B accounts would result in distortions in the cost estimates and could prevent the Commission from developing accurate inputs. For example, the high-cost model for non-rural carriers requires the development of expense factors for outside plant. Class A accounting requires that outside plant be accounted for by type of plant (*i.e.*, poles, aerial cable, underground cable, buried cable, etc.), whereas Class B consolidates all outside plant into a single account, cable and wire facilities. Because different outside plant types typically have different operating expense factors, aggregating outside plant into one Class B account would cause distortions in the outside plant cost estimates generated by the high-cost model.⁶⁹

46. Second, we currently use certain of the Class A accounts in administering our price cap regulation regime. Access charges of price cap LECs were originally based on levels existing at the time they entered price caps; the prices, however, have been adjusted annually pursuant to formulae set forth in Part 61 of the Commission's rules. Price cap indices are adjusted upward if a price cap carrier earns returns below a specified level in a given year.⁷⁰ We recognize, however, that several incumbent LECs have obtained pricing flexibility and thus have waived low-end formula adjustments.⁷¹ Price cap carriers may also seek exogenous adjustments

⁶⁹ We note, however, that the need for such Class A accounting information to develop inputs for the high-cost model may change as the model evolves. In the *10th Report & Order*, the Commission recognized that the model must evolve as technology and other conditions change. *See* Federal-State Joint Board on Universal Service, Forward-Looking Mechanism of High-Cost Support for Non-Rural LECs, CC Docket No. 97-160, *Tenth Report and Order*, 14 FCC Rcd 20156, 20170, ¶ 28 (1999) (*10th Report and Order*), *aff'd sub nom.* Qwest v. FCC (10th Cir.), file nos. 99-9546, 99-9547, 00-9505 (July 31, 2001). The Commission committed to initiating a proceeding to study, among other things, how often the inputs data should be updated and how the model itself should change to reflect changing circumstances. In addition, the Commission stated its intent to initiate a review, with the Federal-State Joint Board on Universal Service, of the operation of the high-cost support mechanism for non-rural carriers on or before January 1, 2003. We intend in the near future to initiate a proceeding to examine how often and to what extent the high-cost model inputs should be revised and updated. To the extent that we, in our review of the model and its cost inputs, conclude that certain inputs should be eliminated or modified, we intend to make corresponding modifications to the accounting requirements to continue our efforts to streamline the accounting and reporting requirements.

⁷⁰ *See, e.g.*, Southwestern Bell 1999 Annual Access Charge Tariff Filing, Transmittal No. 2763, Citizens Telephone Company, 1998 Annual Access Charge Tariff Filing, Transmittal No. 49; GTE-Kentucky Telephone Company, 1998 Annual Access Charge Tariff Filing, Transmittal No. 248.

⁷¹ *See, e.g.*, Sprint Petition for Pricing Flexibility for Special Access and Dedicated Transport Services, CCB/CPD No. 01-04, *Memorandum Opinion and Order*, DA 01-1279 (rel. May 25, 2001); BellSouth Petition for Pricing Flexibility for Special Access and Dedicated Transport Services, CCB/CPD No. 00-20, *Memorandum Opinion and Order*, DA 00-2793 (rel. Dec. 15, 2000); Petition of Ameritech Illinois, *et al.* for Pricing Flexibility, CCB/CPD No. 00-26, Petition of Pacific Bell Telephone Company for Pricing Flexibility, CCB/CPD No. 00-23, Petition of Southwestern Bell Telephone Company for Pricing Flexibility, CCB/CPD No. 00-25, *Memorandum Opinion and Order*, DA 01-670, (rel. Mar. 14, 2001); Verizon Petitions for Pricing Flexibility for Special Access and Dedicated Transport Services, CCB/CPD No. 00-24, 00-28, *Memorandum Opinion and Order*, DA 01-663, (rel. Mar. 14, 2001).

based on actual cost changes.⁷² The Commission typically uses Class A cost information from ARMIS in evaluating submissions from carriers seeking exogenous adjustments. Obtaining such information through ad hoc data requests would be very difficult in the compressed 15-day tariff review process. In addition, the Commission utilizes Class A cost information to evaluate proposed tariff revisions. For instance, the Commission utilized such information to evaluate a carrier's cost justification filed in support of a proposed increase in collocation rates after suspending that tariff.⁷³ Finally, the Commission has commenced a cost study to assess the need for increases in the subscriber line charge (SLC) above the five-dollar threshold that went into effect on July 1, 2001.⁷⁴ While we could use ad hoc data requests to obtain information to evaluate the submissions we receive from the incumbent LECs, this could impair our ability to perform meaningful trend analysis. As a result, even after the adoption of price cap regulation, Class A accounting data is utilized by the Commission in setting access rates, although we recognize that we could adopt alternative approaches in the future. For these reasons, we find that maintaining the disaggregated Class A level of detail for network plant and related asset and expense accounts in the Uniform System of Accounts is a useful tool, at least for the time being, to provide the cost data needed for analysis of these issues.⁷⁵

47. Third, this Commission and the states currently use certain Class A information to update depreciation ranges. Price cap carriers may use the Commission's life and salvage factor ranges to compute their depreciation rates rather than file detailed depreciation studies. Ranges are updated periodically to keep them in line with technological, demand, and competitive changes.⁷⁶ Commenters observe that the lack of Class A plant account information would inhibit the Commission's ability to update depreciation ranges and the states' ability to assess the depreciation ranges because there would be no plant account information on which to base the update.⁷⁷ In addition, this lack of specific data for plant accounts could jeopardize the states' ability to conduct depreciation studies and evaluate depreciation reserves, unless

⁷² An exogenous adjustment allows a carrier to increase its prices to recover costs imposed on it by governmental or administrative action beyond its control. It is typical for incumbent LEC annual access tariffs to include exogenous adjustments. *See, e.g.,* Ameritech Operating Companies 2001 Annual Filing, Transmittal No. 1270, Description and Justification, section 2; BellSouth 2001 Annual Access Charge Tariff Filing, Transmittal No. 592, Description and Justification, section 6; Pacific Bell Telephone Company 2001 Annual Filing, Transmittal No. 37, Description and Justification, section 2; Qwest Corporation 2001 Price Cap Revisions Tariff Filing, Transmittal No. 76, Description and Justification, section 2.2.

⁷³ *See* Bell Atlantic Telephone Companies Revisions in Tariff FCC Nos. 1 and 11, CC Docket No. 01-140, *Order Terminating Tariff Investigation*, FCC 01-278 (rel. Sept. 26, 2001).

⁷⁴ *See CALLS Report and Order*, 15 FCC Rcd at 12994, ¶ 83; "Initiation of Cost Review Proceeding for Residential and Single-Line Business Subscriber Line Charge (SLC) Caps," CC Docket Nos. 96-262, 94-1, *Public Notice*, DA 01-2163 (rel. Sept. 17, 2001).

⁷⁵ All of these cost recovery mechanisms remain in place even under recent access charge reform measures. *See CALLS Report and Order*.

⁷⁶ Price cap carriers may seek waivers from the Commission's depreciation requirements if they meet certain conditions. *See* 1998 Biennial Regulatory Review – Review of Depreciation Requirements for Incumbent Local Exchange Carriers, CC Docket No. 98-137, *Report and Order and Memorandum Opinion and Order*, 15 FCC Rcd 242 (1999).

⁷⁷ *See, e.g.,* Florida Comments at 5; Idaho Comments at 4; Maryland Comments at 3-4; NARUC Comments at 5; Utah Comments at 2; XO Communications Reply Comments at 11-12; North Carolina Sept. 4, 2001 *ex parte* at 2; Maryland Sept. 7, 2001 *ex parte* at Appendix.

alternative approaches were developed.⁷⁸ New York, for example, uses our Class A plant accounts to set the intrastate depreciation rates for all carriers.⁷⁹

48. Fourth, federal and state regulators currently use the information maintained in Class A Account 2411, Poles, to resolve disputes over maximum permitted rates for access to poles, ducts, conduits, and rights-of-way.⁸⁰ As the National Cable Television Association (NCTA) observes,⁸¹ the current pole attachment formulae rely on Class A accounting data.⁸² Pole rents are determined by the Class A Account 2411; under USTA's proposal to eliminate all Class A accounts, a discrete account for pole investment would no longer be publicly available.⁸³ Reliance on publicly available information has allowed pole owners and attaching parties to resolve rate issues without Commission involvement, which is a cost-savings benefit to utilities, cable operators, other attaching parties, and the Commission.⁸⁴

⁷⁸ See, e.g., Idaho Comments at 4; Florida Comments at 5; Maryland Comments at 3; NARUC Comments at 5; New York Comments at 2; ALTS Reply Comments at 9; AT&T Reply Comments at 8; XO Communications Reply Comments at 11-12.

⁷⁹ New York Comments at 2.

⁸⁰ See 47 U.S.C. § 224; 47 C.F.R. § 1.1401-1.1418; Amendment of Rules and Policies Governing Pole Attachments, CS Docket No. 97-98, *Report and Order*, 15 FCC Rcd 6453 (2000), *aff'd in pertinent part* Consolidated Partial Order on Reconsideration, FCC 01-170, 16 FCC Rcd 12103 (2001). See also Florida Comments at note 2; Idaho Comments at 4; Maryland Comments at 3; NARUC Comments at 5 & Reply Comments at 3-4; ALTS Reply Comments at 8-9; AT&T Reply Comments at 7; North Carolina Sept. 4, 2001 *ex parte* at 2.

⁸¹ See NCTA Reply Comments at 3-5.

⁸² See Amendment of Rules and Policies Governing Pole Attachments, CS Docket No. 97-98, *Report and Order*, 15 FCC Rcd 6453 (2000).

⁸³ See NCTA Reply Comments at 4; XO Communications Reply Comments at 12. NCTA states that the following accounts are necessary for calculation of pole and conduit rental: Account 2001, Telecommunications plant in service; Account 2411, Poles; Account 2441, Conduit systems; Account 4100, Net current deferred operating income taxes; Account 4340, Net noncurrent deferred operating income taxes; Account 6411, Poles expense; Account 6441, Conduit systems expense; Account 6710, Executive and planning; Account 6720, General and administrative; Account 7200, Operating taxes. NCTA Aug. 31, 2001 *ex parte*.

⁸⁴ See NCTA Reply Comments at 5; XO Communications Reply Comments at 12. NCTA states that the following accounts are necessary for calculation of pole and conduit rental: Account 2001, Telecommunications plant in service; Account 2411, Poles; Account 2441, Conduit systems; Account 4100, Net current deferred operating income taxes; Account 4340, Net noncurrent deferred operating income taxes; Account 6411, Poles expense; Account 6441, Conduit systems expense; Account 6710, Executive and planning; Account 6720, General and administrative; Account 7200, Operating taxes. NCTA Aug. 31, 2001 *ex parte*. We agree that these accounts are necessary and must be maintained and reported in ARMIS. However, for purposes of the pole attachment formulas, because Account 6720 (General & Administrative) has been amended to include Account 6710, once this order is implemented, parties to pole attachment disputes may substitute Account 6720 for the sum of previous Accounts 6710 and 6720. Also, Account 7200, which has been eliminated may be substituted by using the individual Accounts 7210 to 7250 inclusive. Also, Class A carriers must report their pole rental expense, which reduces the pole owner's maintenance expense (Account 6411) in the pole attachment formula. (This would also apply to conduit if any conduit rental expense was included in Account 6441). Class A carriers must also continue to file the pole and conduit-specific information in current ARMIS Report 43-02, Tables B-5, for Account 3100, Lines 0490 (depreciation reserve for total plant in service), 0390 (depreciation reserve for pole plant, Account 2411), and 0470 (depreciation reserve for conduit, Account 2441) and

49. Fifth, state regulators use Class A account information relating to network plant to determine appropriate pricing for UNEs pursuant to section 251. Commenters argue that it is critical to have the account detail at the Class A level to establish proper rates for UNEs.⁸⁵ State commenters and other parties in this proceeding argue that without detailed cost data, regulators and other parties cannot develop cost models or evaluate cost studies provided by the carriers.⁸⁶

50. Two of the essential market-opening provisions of the 1996 Act are sections 251(c)(3) and 251(c)(6) of the Communications Act, relating, respectively, to the provision of UNEs and physical collocation.⁸⁷ The Commission regards the appropriate pricing of UNEs to be particularly important in promoting efficient competition. The ability of a competing carrier to use UNEs, and combinations of UNEs, is essential to promote efficient competition in the local exchange market.⁸⁸ The states assert an ongoing regulatory need for more disaggregated cost information, at the Class A level, to assist their evaluation of incumbent LEC cost submissions when developing rates for UNEs and collocation. Moreover, Class A information from the USOA, will be used by the Commission itself in cases where the Commission preempts the state commission under section 252(e)(5) of the Communications Act.⁸⁹ In particular, state regulators,

Table B-7 - depreciation rate for poles, Account 2411 and depreciation rate for Conduit, Account 2441 as well as the information contained in current ARMIS Report 43-08 Table 1.A, Equivalent Number of Poles; Conduit System Trench Km and Conduit System Duct Km. In addition, Class A carriers must maintain and report pole and conduit-specific information related to Accounts 4100 (net current deferred operating income taxes) and Account 4340 (net noncurrent deferred operating income taxes). Finally, we note that in certain cases, where a complaint is filed against a utility concerning the charges for non-traditional attachments, additional information may be required to calculate a maximum rate.

⁸⁵ See, e.g., Florida Comments at 4; Idaho Comments at 4; Maryland Comments at 3; NARUC Comments at 4-5; Ohio CC and NASUCA Joint Comments at 5 & Reply Comments at 4; Utah Comments at 2; AT&T Comments at 4 & Reply Comments at 7; Alaska Reply Comments at 3; ALTS Reply Comments at 8; California Reply Comments at 2; GSA Reply Comments at 7; Virginia Reply Comments at 1; WorldCom Reply Comments at 3; XO Communications Reply Comments at 6, 10; Maryland Sept. 7, 2001 *ex parte* at Appendix.

⁸⁶ See, e.g., Idaho Comments at 4; NARUC Comments at 5; North Carolina Public Staff Comments at 3; Utah Comments at 2; Sprint Comments at 2; ALTS Reply Comments at 9; XO Communications Reply Comments at 10.

⁸⁷ Section 251(c)(3) requires incumbent LECs to “provide nondiscriminatory access to network elements on an unbundled basis at any technically feasible point, on rates, terms, and conditions that are just, reasonable, and nondiscriminatory.” 47 U.S.C. § 251(c)(3). Section 251(c)(6) requires incumbent LECs to “provide, on rates, terms, and conditions that are just, reasonable, and nondiscriminatory, for physical collocation of equipment necessary for interconnection or access to unbundled network elements at the premises of the local exchange carrier.” 47 U.S.C. § 251(c)(6). Section 252 of the Communications Act, 47 U.S.C. § 252, sets forth the procedures by which telecommunications carriers may request and obtain interconnection and unbundled network elements from an incumbent LEC.

⁸⁸ We note that pursuant to the section 251(c)(3) requirements, incumbent LECs are providing increasing numbers of unbundled network elements to competitive LECs (CLECs). They provided over 5.2 million UNE loops in the last six months of 2000, compared to over 3.2 million six months earlier. See Industry Analysis Division, *Local Telephone Competition: Status as of December 31, 2000*, (rel. May 2001).

⁸⁹ See, e.g., Petition of WorldCom, Inc. Pursuant to Section 252(e)(5) of the Telecommunications Act of 1996 for Expedited Preemption of the Virginia State Corporation Commission Regarding Interconnection Disputes with Verizon and Expedited Arbitration, CC Docket No. 00-218, filed Oct. 26, 2000; “Pleading Cycle Established for Comments on Section 252(e) Petition filed by WorldCom, Inc.,” CC Docket No. 00-218, *Public Notice*, 15 FCC 20456 (2000).

or the Commission, may compare incumbent LEC cost submissions with USOA cost information obtained from other incumbent LECs or they may compare current cost information with recent ARMIS filings to determine whether there are any unusual increases or decreases in certain accounts.⁹⁰ Without such ready access to Class A accounting or some similar level of accounting detail, for plant-specific, customer, and corporate expense disaggregated accounts, regulators would be at a disadvantage in evaluating cost studies prepared by the incumbent LECs because the incumbent LECs would be the only parties with access to disaggregated cost data.⁹¹ This could significantly compromise regulators' ability to implement the local competition mandates of the 1996 Act.⁹²

51. Plant accounts are an important indicator of a company's investments.⁹³ As illustrated below, disaggregation of these accounts at the Class A level, or some similar level of accounting detail, enables regulators to determine a carrier's costs in different contexts. For example, without this level of detail, regulators would not have data readily available regarding construction of the various types of outside plant because all outside cable and wire investments for both fiber and copper cable located aerial, underground, or buried are aggregated into one account under Class B.⁹⁴ This distinction is important due to different costs associated with installation and maintenance of the three different types of outside cable.⁹⁵ If the three types of outside cable were aggregated into one Class B account, it would be difficult to analyze a company's outside plant costs. Outside plant costs are important for several reasons. For example, we have used outside plant costs in the development of inputs to the universal service high-cost model for non-rural carriers. Because of cost differences, we use six different sets of input values in the model for cable costs depending on whether the cable is aerial, underground, or buried and copper or fiber for each of the three types of plant. Moreover, certain outside plant costs, not presently available in Class B accounts, are required to compute just and reasonable pole attachment rates, a responsibility shared between the states and the Commission. We intend to develop a further record on whether alternative means of obtaining such information would be adequate to meet our ongoing federal regulatory needs. Based on that record and the

⁹⁰ See, e.g., AT&T Comments at 3-4 & Reply Comments at 6-7; Florida Comments at 4; Idaho Comments at 4; Maryland Comments at 3; NARUC Comments at 4-5; North Carolina Public Staff Comments at 3; Ohio CC and NASUCA Joint Comments at 5; Sprint Comments at 8; Utah Comments at 1-2; California Reply Comments at 2; XO Communications Reply Comments at 10.

⁹¹ See, e.g., AT&T Comments at 3-4; Florida Comments at 5-6; Idaho Comments at 4; Maryland Comments at 4; NARUC Comments at 5; Sprint Comments at 8; Utah Comments at 1-2; ALTS Reply Comments at 9; XO Communications Reply Comments at 10; Illinois Aug. 24, 2001 *ex parte* at 1-2; North Carolina Sept. 4, 2001 *ex parte* at 1-2.

⁹² In the accompanying Further Notice of Proposed Rulemaking, we seek comment on whether state commissions can develop alternative sources of such information in the future.

⁹³ See California Reply Comments at 2.

⁹⁴ See, e.g., Florida Comments at 4-5; Idaho Comments at 4; Maryland Comments at 3; NARUC Comments at 5; RUS Comments at 2; Sprint Comments at 8; Utah Comments at 2; AT&T Reply Comments at 7; California Reply Comments at 2; Maryland Sept. 7, 2001 *ex parte* at Appendix.

⁹⁵ Aerial cable (Account 2421) is strung between poles above ground and has lower installation costs but higher maintenance costs. Underground cable (Account 2422) is placed underground within conduits, and buried cable (Account 2423) is placed underground without conduit. Underground and buried cable have higher installation costs than aerial cable, but may have lower maintenance costs. A carrier will determine whether to use aerial, underground, or buried cable based on factors such as the geographic distribution of the population and the terrain.

development of alternative mechanisms, the Commission could later determine that such aggregation is acceptable in the Uniform System of Accounts.⁹⁶

52. The Class A or some similar level of detail is also needed to distinguish costs associated with metallic cable from fiber (nonmetallic cable). Otherwise, lower maintenance costs for fiber would be mixed in with higher maintenance costs for metallic cable, creating artificially high maintenance costs.⁹⁷ The universal service high-cost model for non-rural carriers uses expense factors for copper cables that are developed separately from those for fiber cables. These outside plant costs should therefore remain disaggregated at the Class A level, absent a determination that countervailing or other factors not addressed sufficiently here make such aggregation acceptable.

53. In addition, estimates of operating costs for digital switches can be derived from Class A accounts in Part 32, enabling the states or other parties to evaluate forward-looking switching costs when developing UNE rates without the distortion that would result if all types and vintages of switches were combined into one account.⁹⁸ We use digital switching costs in various contexts, including the development of inputs to the universal service high-cost model for non-rural carriers. Because the model estimates forward-looking costs, it includes only digital switches. We use investment and expense data for digital switches to develop input values. Use of aggregated Class B accounts would aggregate analog electronic switching (Account 2211), digital electronic switching (Account 2212), and electro-mechanical switching (Account 2215), thereby distorting input values in the high-cost model. Again, we may conclude in the future that this level of disaggregation in the USOA is no longer necessary, if we or the states develop alternative sources of such information to meet federal or state regulatory needs.

54. Thus, at least at present, the Commission and the states have an ongoing regulatory need to maintain the Class A accounts for network plant and related asset and expense accounts. We conclude that these regulatory needs outweigh the potential costs of maintaining the accounts at this level of detail. We are not convinced that maintaining Class A accounting for the network plant and related asset and expense accounts is unduly burdensome, particularly in light of the streamlining reforms adopted in this Order.⁹⁹ Incumbent LECs maintain many more than the Class A accounts in their own accounting systems and even the smallest incumbent

⁹⁶ See Further Notice of Proposed Rulemaking.

⁹⁷ See Sprint Comments at 8.

⁹⁸ See XO Communications Reply Comments at 11.

⁹⁹ See, e.g., Florida Comments at 6; Idaho Comments at 4-5; Maryland Comments at 4; NARUC Comments at 5 & Reply Comments at 7; New York Comments at 2; North Carolina Public Staff Comments at 3 (“most of the small ILECs regulated by the NCUC use the Class A accounting system”); Utah Comments at 2; ALTS Reply Comments at 11; Ohio CC and NASUCA Reply Comments at 2; XO Communications Reply Comments at 8-9; New Hampshire PN Reply Comments at 2; Nebraska Aug. 27, 2001 *ex parte* at 1; North Carolina Sept. 4, 2001 *ex parte* at 2; Maryland Sept. 7, 2001 *ex parte* at Appendix. The State of Oregon observes that most of the complaints it receives about accounting burdens are related to confidentiality or nonregulated activities, and audits have shown that companies keep more details than they usually offer to regulators. Oregon Comments at 3. Even BellSouth admits that if it were “allowed to set up its own set of accounts it would still capture and record the information that it needs to effectively operate a business. This information would in all likelihood very much resemble the information that BellSouth currently captures today.” BellSouth Reply Comments at 4.

LECs use Class A accounting which is required for Rural Utility Service (RUS) loans.¹⁰⁰ For the reasons discussed above, we therefore decline at this time to adopt USTA's proposal to eliminate Class A accounting in its entirety.

55. We also decline to adopt USTA's proposal to eliminate subaccounts 1220.1 and 1220.2.¹⁰¹ USTA, Sprint, and Verizon contend that carriers should not be required to maintain subaccounts or subsidiary records that are not necessary to meet business requirements.¹⁰² We find that these subaccounts continue to serve federal regulatory needs. The information recorded in subaccount 1220.1, Materials and supplies, is used by the Commission in almost all tariff proceedings and in investigations to calculate materials and supplies overhead factors.¹⁰³ If these subaccounts were eliminated, the Commission would lack the information to calculate such overheads, and would therefore be hampered in its ability to critically evaluate the submissions of the carrier. This information is also used in state UNE ratemaking proceedings.

56. We do, however, adopt USTA's proposal to eliminate the subaccounts under Account 1406, Nonregulated investments. At present, large incumbent LECs record very few transactions in Account 1406. Thus, we believe that requiring subaccounts for permanent investment, receivable/payable, and current net income or loss is unnecessary.

3. The States' Proposals for New Class A Accounts

57. Many commenters, particularly the state commissions, argue generally that the new accounts listed in the *Notice* and the *June 8 Public Notice* would be appropriate and necessary to maintain an up-to-date accounting system.¹⁰⁴ Commenters observe that changes in the industry and the ongoing implementation of local competition should be reflected in the chart of accounts through both additions and deletions.¹⁰⁵ Commenters propose adding new accounts to

¹⁰⁰ The RUS provides financing and technical advice to about 825 rural local exchange carriers. See RUS PN Comments at 1.

¹⁰¹ See USTA Letter at Attachment A.

¹⁰² See Sprint Comments at 7; Verizon Comments at 6; USTA Comments at 8-9.

¹⁰³ Subaccount 1220.2, Property held for sale or lease, is not included in such calculations and therefore must be accounted for separately.

¹⁰⁴ See, e.g., Florida Comments at 6; Oregon Comments at 2; Utah Comments at 4; Maryland Comments at 6-7; North Carolina Public Staff Comments at 3; NARUC Comments at 6 & Reply Comments at 4; Ohio CC and NASUCA Joint Comments at 5-6; Wisconsin Comments at 6; WorldCom Comments at 3-4; Idaho Comments at 5; California Reply Comments at 2; ALTS Reply Comments at 11-12; GSA Reply Comments at 9; Nebraska Aug. 27, 2001 *ex parte* at 1; Illinois Aug. 24, 2001 *ex parte* at 2; AT&T Aug. 29, 2001 *ex parte* at 1-2; NARUC Sept. 6, 2001 *ex parte* at Appendix A, pp.3-5; Washington Aug. 16, 2001 *ex parte* at 1; North Carolina Sept. 4, 2001 *ex parte* at 3-4; New Mexico Aug. 30, 2001 *ex parte* at Appendix, p.2; North Dakota Aug. 31, 2001 *ex parte* at 1; Indiana Sept. 21, 2001 *ex parte* at 1-3; Maryland Sept. 7, 2001 *ex parte* at Appendix; New Hampshire Sept. 7, 2001 *ex parte* at 1-2; Kansas Oct. 2, 2001 *ex parte*; South Dakota Aug. 27, 2001 *ex parte* (explaining that the accounts listed in the *June 8th Public Notice* reflected a compromise between accounting streamlining and the strong needs of state regulators for modest updating of new technologies and nascent competition-related accounts.)

¹⁰⁵ See, e.g., Oregon Comments at 1; North Carolina Public Staff Comments at 3; Wisconsin Comments at 6; Indiana Sept. 21, 2001 *ex parte* at 1-3. Oregon explains that detariffing, deregulation, and new technologies have increased the need for some reporting requirements and account details and reduced the need for other information Oregon Comments at 1. Idaho also notes that rapid growth in Internet traffic, packet switching, digital subscriber line services, and UNEs has forced the industry to increasingly

recognize revenues and costs for items such as UNEs, collocated facilities, interconnection agreements, reciprocal compensation, universal service fund transactions, and to recognize meaningful subcategories of digital electronic switches and cable and wire facilities.¹⁰⁶ Ohio CC and NASUCA observe that the information in the proposed new accounts would be used by state commissions, state consumer advocates, and other stakeholders.¹⁰⁷ Incumbent LECs oppose adding these new accounts.¹⁰⁸ BellSouth, for example, contends that, despite the net reduction in accounts, the added burden created by the additional accounts and subaccounts will far outweigh any positive effects of the elimination of other accounts.¹⁰⁹ Verizon observes that state commissions should require carriers to report the data required to meet the state's regulatory needs, regardless of whether the Commission streamlines the Part 32 accounts.¹¹⁰ After consideration of the record, we conclude that at this time we will only adopt new Class A subaccounts for circuit and packet digital electronic switching, electronic and optical circuit equipment, and wholesale and retail services.¹¹¹

58. *Circuit and packet switching subaccounts.* In the *June 8 Public Notice*, we proposed to add two subaccounts, for circuit and packet switching, to the digital switching accounts.¹¹² We note that circuit and packet switching equipment has substantially different functions, designs, and cost structures. The addition of these subaccounts would assist federal and state regulators, as these subaccounts will be used to develop and assess forward-looking cost studies for UNE pricing as well as for developing inputs to the high-cost model for universal service support. Under our current rules, packet switches need not be unbundled except under

rely on the incumbent LEC's network; monitoring of the incumbent LECs' costs, investments, and cost allocation practices is important. Idaho Comments at 3.

¹⁰⁶ See, e.g., Florida Comments at 6; GSA Comments at 5; MD Comments at 6-7; NC Public Staff Comments at 3; NARUC Comments at 6 & Reply Comments at 5; Ohio CC and NASUCA Joint Comments at 6; Utah Comments at 4-5; Wisconsin Comments at 6-7; ALTS Reply Comments at 11; WorldCom Reply Comments at 4-5; GSA PN Comments at 4-5; Ohio CC PN Comments at 5-6; WorldCom PN Comments at 2; New Hampshire PN Reply Comments at 3-4; Illinois Aug. 24, 2001 *ex parte* at 2; AT&T Aug. 29, 2001 *ex parte* at 1-2; NARUC Sept. 6, 2001 *ex parte* at Appendix A, pp. 3-5; Washington Aug. 16, 2001 *ex parte* at 1; North Carolina Sept. 4, 2001 *ex parte* at 3-4; New Mexico Aug. 30, 2001 *ex parte* at Appendix, p.2; North Dakota Aug. 31, 2001 *ex parte* at 1; Indiana Sept. 21, 2001 *ex parte* at 1-3; Maryland Sept. 7, 2001 *ex parte* at Appendix; New Hampshire Sept. 7, 2001 *ex parte* at 1-2.

¹⁰⁷ Ohio CC and NASUCA Joint Comments at 6; Ohio CC PN Comments at 7.

¹⁰⁸ See, e.g., Verizon Comments at 3-4 & Reply Comments at 5-6; USTA Comments at 9-12 & Reply Comments at 10-11; BellSouth Comments at 5; Qwest Comments at 2-4.

¹⁰⁹ BellSouth PN Comments at 2.

¹¹⁰ Verizon PN Reply Comments at 2.

¹¹¹ We note that we continue to look at all of these issues in Phase 3. States, of course, are free to revisit these issues in the course of that proceeding. Commenters urge us to create new accounts, or subaccounts, to better track costs associated with specific UNEs, such as loops and switching. See, e.g., North Carolina Public Staff Comments at 3; OCC and NASUCA Joint Comments at 6; Wisconsin Comments at Attachment A, pp. 3, 11; GSA PN Comments at 4-5; & PN Reply Comments at 4-5; AT&T Aug. 29, 2001 *ex parte* at 1; NARUC Sept. 6, 2001 *ex parte* at Appendix A, p. 5; North Carolina Sept. 4, 2001 *ex parte* at 3; New Mexico Aug. 30, 2001 *ex parte* at Appendix, p.2.

¹¹² The digital switching accounts are: Account 2212, Digital electronic switching and Account 6212, Digital electronic expense. Several commenters supported this proposal. See, e.g., GSA PN Comments at 5 & PN Reply Comments at 5; Utah Aug. 31, 2001 *ex parte* at Appendix, p.3; Maryland Sept. 7, 2001 *ex parte* at Appendix; New Hampshire Sept. 7, 2001 *ex parte* at 2; NASUCA Oct. 4, 2001 *ex parte* at 2-3.

limited circumstances. We are sensitive to the concerns of states that the accounts for digital electronic switching and digital electronic expense not be distorted by the inclusion of costs incurred to deploy packet-based switches. For example, new packet switching equipment may have substantially different maintenance expenses than the older circuit switches. If we do not disaggregate the plant and maintenance expenses in the digital switching accounts, the forward-looking cost factors will be based on combined data from circuit and packet technologies. This could lead to an overstatement of the forward-looking costs, and UNE rates for switching that are too high. As a result, we adopt our proposal to add two subaccounts for circuit and packet switching under Account 2212, Digital electronic switching and Account 6212, Digital electronic switching expense.

59. We are not persuaded that because a switch could have both packet and circuit elements, it would be difficult or costly to implement the new subaccounts.¹¹³ As with the introduction of any new technology, there is a period of time in which the old technology coexists with the new. We are not requiring carriers to allocate the cost of a multi-functional switch between the two subaccounts. Rather, consistent with existing Commission precedent in other contexts, a switch that has both packet and circuit switching capabilities should be accounted for in the subaccount that reflects its predominant use.

60. *Optical switching.* In the *June 8 Public Notice*, we proposed to add Account 2213, Optical switching and Account 6213, Optical expense.¹¹⁴ After reviewing the record, we agree with the incumbent LEC commenters that adding the optical switching account is premature because the technology has not yet developed to the point where widespread deployment is imminent.¹¹⁵

61. *Electronic and optical circuit equipment subaccounts.* In the *June 8 Public Notice*, we proposed adding subaccounts to segregate electronic and optical in the circuit equipment accounts.¹¹⁶ As we discussed above, as new technologies are deployed, it is critical that cost models be updated to properly calculate the forward looking cost of the relevant facility. We understand that carriers are increasingly deploying fiber in their networks and deploying electronic circuitry that provides a conversion between electronic and optical transmission. For the same reasons we adopt circuit and packet switching subaccounts, we adopt subaccounts for electronic and optical circuit equipment under Account 2232, Circuit equipment and Account 6232, Circuit equipment expense. These new subaccounts will help prevent the distortion of operating expense factors. Optical technology equipment may have substantially lower maintenance expense than the electronic equipment. The addition of subaccounts to disaggregate optical from electronic circuit equipment would provide federal and state regulators more refined

¹¹³ Verizon PN Comments at 7; USTA PN Comments at 4; USTA Sept. 28, 2001 *ex parte*. Carriers currently maintain accounts for packet and circuit switches, for their own purposes.

¹¹⁴ Several commenters supported this proposal. *See, e.g.*, GSA PN Comments at 4-5; Utah Aug. 31, 2001 *ex parte* at Appendix, p.3; Maryland Sept. 7, 2001 *ex parte* at Appendix; New Hampshire Sept. 7, 2001 *ex parte* at 2; NASUCA Oct. 4, 2001 *ex parte* at 2-3.

¹¹⁵ USTA PN Comments at 4; Verizon PN Comments at 7. BellSouth contends that it will cost between \$1.0 and \$1.2 million to implement this change. BellSouth PN Comments at 2. SBC also argues that this change would require additional costs. SBC PN Comments at 4.

¹¹⁶ The Circuit equipment accounts are Account 2232, Circuit equipment and Account 6232, Circuit equipment expense. *See* New Hampshire Sept. 6, 2001 *ex parte* at 2-3 (stating that the addition of these subaccounts would recognize the evolution that is occurring in telecommunications today and will provide regulators with necessary information). *See also* NASUCA Oct. 4, 2001 *ex parte* at 2-3.

data to develop and assess forward-looking cost studies for UNE pricing as well as for developing inputs to the high-cost model for universal service support. This new optical account would be used, for instance, to record investments and expenses relating to optical splitters. Circuit equipment that converts electronic signals to optical signals or optical signals to electronic signals shall be categorized as electronic.

62. *Switching Software.* We decline to add a subaccount to the intangible asset account for switching software.¹¹⁷ The intangible asset account currently has subsidiary record categories for general purpose computer software and network software.¹¹⁸ We see no regulatory need at this time to separately track investment in switching software in a new subaccount.

63. *Loop and Interoffice Transport.* We decline to add subaccounts to central office transmission, cable and wire facilities, and information origination/termination accounts for loop and interoffice transport. We recognize that some commenters argue that these subaccounts would allow the refinement of cost models that estimate forward-looking costs of unbundled transport and loops.¹¹⁹ While it may be useful to have this disaggregated information, we find that allocating these costs to separate subaccounts would be overly burdensome because, in some cases, both loop and interoffice transport would be carried on the same cable facility.¹²⁰

64. *Wholesale and retail subaccounts.* In the *Notice*, the Commission sought comment on adding subaccounts for wholesale and retail.¹²¹ We conclude that we should create new subaccounts to existing Account 6620, Services, to separately record expenses associated with retail and wholesale services. The wholesale versus retail distinction is important for customer service because the per-line expenditure for customer service is higher at the retail level.¹²² Moreover, we anticipate that the wholesale/retail distinction will increase in importance as competition develops in the local exchange market. Adding these new subaccounts will assist

¹¹⁷ Several commenters supported this proposal. *See, e.g.*, GSA PN Comments at 5. Incumbent LEC commenters opposed this. *See, e.g.*, Sprint Comments at 9.

¹¹⁸ In the *Accounting Reductions Report and Order*, 14 FCC Rcd at 11419, ¶ 49, the Commission required carriers to establish and maintain subsidiary record categories for general purpose computer software and network software within the intangible asset account. The Commission noted that the cost of software upgrades and enhancements would continue to be expensed or capitalized in accordance with GAAP. *Id.* We will amend section 32.2690 to clarify this requirement.

¹¹⁹ *See, e.g.*, WorldCom Comments at 3-4; GSA Comments at 4-5; North Carolina Public Staff Comments at 3; Wisconsin Comments at Attachment A, p.4 & PN Comments at 4; New Hampshire PN Reply Comments at 4.

¹²⁰ *See, e.g.*, CBT Comments at 5; Sprint Comments at 9-10; Verizon Comments at 3 & Reply Comments at 5; USTA Comments at 10-11 & Reply Comments at 10; USTA PN Reply Comments at 5. Verizon observes that cost studies are more than adequate to develop loop and interoffice transport costs. Verizon Comments at 3. Sprint observes that the recent freeze of Part 36 category relationships for price cap carriers stabilizes these investments and reduces the significance of analyzing loop and transport allocations. Sprint PN Reply Comments at 2.

¹²¹ *See Notice* at Appendix 5. Several commenters supported this proposal. *See, e.g.*, GSA Comments at 5; Oregon Comments at 2; New York Comments at 1; Wisconsin Comments at Attachment A, pp. 14-15 & PN Comments at 4; GSA PN Comments at 5 & PN Reply Comments at 6; New Hampshire PN Reply Comments at 4; Washington Aug. 16, 2001 *ex parte* at 1; NARUC Sept. 6, 2001 *ex parte* at App. A, pp.5-6; AT&T Aug. 29, 2001 *ex parte* at 2.

¹²² This is because CLECs (wholesale customers) do most of the customer service functions themselves.

the states in developing UNE rates that properly reflect the costs of providing a wholesale service. Therefore, we adopt the proposal in the *Notice* to add retail and wholesale subaccounts to Account 6620, Services. We are not persuaded by those commenters that argue that the burden of adding the subaccounts outweighs any potential benefits.¹²³ These commenters have not quantified this burden. Moreover, we anticipate that the wholesale/retail distinction will increase in importance as competition develops in the local exchange market.

65. *Interconnection-related Revenues and Expenses.* We decline to adopt new Class A accounts for UNEs, resale, reciprocal compensation, and other interconnection arrangements.¹²⁴ Commenters argue that these new accounts would allow policymakers to monitor technology deployment, collocation, interconnection, and resold services.¹²⁵

66. The Form 477 already provides information on the extent of local competition.¹²⁶ In the *Local Competition and Broadband Data Gathering Program*, service providers file data on a Form 477, giving the Commission information on the status of local competition and the deployment and availability of broadband services to discrete geographic areas.¹²⁷ Service providers that meet the relevant reporting threshold file data on a state-by-state basis and also report a list of zip codes in which they have at least one customer for local exchange telephone

¹²³ See, e.g., Sprint Comments at 9-10; USTA Comments at 11 & Reply Comments at 11; Verizon PN Reply Comments at 4; USTA PN Reply Comments at 5.

¹²⁴ On October 7, 1997, we released a Notice of Proposed Rulemaking in CC Docket No. 97-212, proposing, *inter alia*, new Part 32 accounts and subsidiary recordkeeping requirements to record the revenues and expenses related to providing and obtaining interconnection arrangements and access to unbundled network elements. See Amendments to Uniform System of Accounts for Interconnection, CC Docket No. 97-212, *Notice of Proposed Rulemaking*, 12 FCC Rcd 16577 (1997). GTE Service Corporation, MCI Telecommunications, Corp., Ameritech, Public Utilities Commission of Ohio, Cox Communications, Inc., BellSouth, and United States Telephone Association filed comments in that docket. Ameritech filed reply comments. The issues raised in that proceeding are resolved here; therefore, we are terminating CC Docket No. 97-212.

¹²⁵ See, e.g., Florida Comments at 6; Maryland Comments at 6-7; New York Comments at 1; North Carolina Public Staff Comments at 3; NARUC Comments at 6 & Reply Comments at 5; Idaho Comments at 5; Wisconsin Comments at 6; Wisconsin PN Comments at 3; GSA Comments at 5; GSA PN Comments at 4; ALTS Reply Comments at 11; WorldCom Comments at 3 & Reply Comments at 4-5; WorldCom PN Comments at 2-3; Ohio CC and NASUCA Joint Comments at 6; Ohio CC PN Comments at 5 & Reply Comments at 5; New Hampshire PN Reply Comments at 3; North Dakota Aug. 31, 2001 *ex parte* at 1; Utah Aug. 31, 2001 *ex parte* at Appendix, p.2; Maryland Sept. 7, 2001 *ex parte* at Appendix; New Hampshire Sept. 7, 2001 *ex parte* at 2; Kansas Oct. 2, 2001 *ex parte*; CompTel Oct. 3, 2001 *ex parte*; NASUCA Oct. 4, 2001 *ex parte* at 4; California Oct. 2, 2001 *ex parte* at 1-2; Indiana Sept. 21, 2001 *ex parte* at 1-3. Indiana explains that currently resale revenues are classified by the incumbent LECs as “rent,” which does nothing to assist the states and the Commission in monitoring the extent of local competition (in this case, through resale of bundled services). Indiana Sept. 21, 2001 *ex parte* at 1-2. NARUC explains that revenues the incumbent LEC receives from UNEs or resale would show trends in competition. NARUC Sept. 6, 2001 *ex parte* at Appendix A, pp. 3-4.

¹²⁶ Verizon PN Reply Comments at 3-4.

¹²⁷ See Local Competition and Broadband Reporting, CC Docket No. 99-301, *Report and Order*, 15 FCC Rcd 7717 (2000) (*Local Competition and Broadband Data Gathering Program*). This program seeks to develop the Commission’s understanding of the deployment and availability of broadband services and the development of local telephone service competition in order to comply with section 706 of the 1996 Act. The *Local Competition and Broadband Data Gathering Program* was established for a five-year period, unless the Commission acts to extend it.

service. Although this program collects a more limited amount of information than the proposed Part 32 interconnection accounts, it covers a broader range of providers than the incumbent LECs. Based on the current record, we conclude that the information collected through the *Local Competition and Broadband Data Gathering Program* provides a way to monitor the extent of local competition, and we do not need at this time to add new USOA revenue accounts for UNE revenue, resale revenue, and reciprocal compensation in order to assess the status of local competition.

67. We note that incumbent LECs currently record UNE revenues in Account 5240, Rent revenue, which we now consolidate into Account 5200, Miscellaneous revenue.¹²⁸ Moreover, we understand that incumbent carriers currently record reciprocal compensation receipts in Account 5084, State access revenues, an account we eliminate today. Henceforth, revenues derived from both UNEs and reciprocal compensation should be recorded as part of Account 5200. Nothing in this order is intended to preclude states from requiring carriers to maintain subsidiary records or subaccounts for UNE revenues or reciprocal compensation revenues. We expect that carriers will provide disaggregated information regarding such revenues if states request such information.

68. We also decline to establish a new account to record resale revenues. Incumbent LECs currently record resale revenues in the various accounts where they record the revenues derived from various retail services.¹²⁹ We conclude, based on the record before us, that it could be unduly burdensome for incumbent LECs to segregate all of their resale revenues into a separate account. Moreover, we conclude that no compelling case has been made that the regulatory need for this new revenue account outweighs the burdens associated with its creation.

69. With respect to proposed new expense accounts, we note at the outset that our rules and the statute itself otherwise require that incumbent carriers document these costs pursuant to the mandates of sections 251 and 252 of the Communications Act. For example, the Communications Act clearly requires that incumbent LECs offer services for resale and access to unbundled network elements at cost-based rates. This “bottom-up” approach involves, in many cases, cost studies or other detailed examinations that use current cost information as the starting point for determining forward-looking costs. Thus, based on the record before us here, we find there is insufficient support to justify imposing new Class A accounts to record the expenses associated with UNEs, resale, reciprocal compensation, and other interconnection arrangements. Nevertheless, we expect to continue monitoring this issue closely.

70. We see no need to create a new account for UNE expenses. Commenters suggest that this account would record amounts incurred when an incumbent LEC purchases a UNE from another carrier, such as when the incumbent purchases UNEs from an adjacent LEC to expand into neighboring territories, or when an incumbent purchases UNEs to provide service out-of-region. This account also could record expenses incurred by an incumbent LEC in leasing facilities from a CLEC within the incumbent LEC’s service area. The concern expressed by the states is that these expenses not be recorded in the incumbent LEC’s current expense accounts, because that would distort forward-looking cost studies for UNE pricing by overstating the relationship of operating expenses to plant.¹³⁰

¹²⁸ USTA Sept. 6, 2001 *ex parte*

¹²⁹ *Id.*

¹³⁰ *See, e.g.,* NARUC Sept. 6, 2001 *ex parte* at Appendix A, p. 4.

71. Our sense is that, at present, incumbent LECs are not incurring a significant amount of these expenses. Moreover, incumbent LECs have asserted that they do not include these costs in their regulated costs at all,¹³¹ which would appear to address the states' primary concern that these costs not distort the accounts used for regulated costs. Therefore, we see no need to establish these new accounts, and direct incumbent LECs not to record these costs in their regulated accounts.

72. Similar considerations pertain to expenses associated with an incumbent LEC's purchase of resold services from another incumbent LEC. Assuming that the incumbent LECs are not presently recording such expenses as regulated expenses, there is no danger that expense accounts used to develop UNE prices are being distorted. We direct carriers not to include these costs, if any, in their regulated expense accounts.

73. In addition to the above proposals listed in the *Notice*, two commenters suggest adding subaccounts to identify affiliated and nonaffiliated amounts in several accounts. Specifically, Wisconsin proposes to add subaccounts for affiliated and nonaffiliated amounts to the following accounts: Account 1120, Cash and equivalents; Account 1215, Other receivables – net (a proposed new account); Account 1408, Sinking funds; and Account 4025, Accounts and notes payable (a proposed new account).¹³² Wisconsin contends that these subaccounts should be identified due to the section 272(b)(5) requirement for arm's length transactions with affiliates.¹³³ We note that several of the accounts being consolidated into these accounts currently require subsidiary record categories to be maintained so that carriers may separately report the amounts contained therein that relate to affiliates and nonaffiliates. We will continue to require subsidiary record categories for the consolidated accounts to the extent required in the past. We note that there has been no requirement for such subsidiary record categories for Account 1408, and none will be added.

74. *Universal service support.* We decline to amend Part 32 by adding new universal service expense and revenue accounts.¹³⁴ At the outset, we note that we already collect from all

¹³¹ USTA Sept. 6, 2001 *ex parte*.

¹³² Wisconsin Comments at Attachment A, pp. 1, 2, 5; Wisconsin PN Comments at 3 & Attachment A, pp. 1, 2, 5. *See also* New Hampshire PN Reply Comments at 3. USTA disagrees with this proposal. *See* USTA PN Reply Comments at 6.

¹³³ Wisconsin Comments at Attachment A, p. 1.

¹³⁴ We note that several commenters, primarily state commissions, contend that we should adopt a new account for universal service support revenues. *See, e.g.,* North Carolina Public Staff Comments at 3; Ohio CC and NASUCA Joint Comments at 6; Ohio CC PN Comments at 5 & Reply Comments at 5; Wisconsin Comments at 7 & PN Comments at 3; GSA Comments at 5; WorldCom Comments at 3; NARUC Reply Comments at 5; New Hampshire PN Reply Comments at 4; North Dakota Aug. 31, 2001 *ex parte* at 1; Utah Aug. 31, 2001 *ex parte* at Appendix, p.2; Indiana Sept. 21, 2001 *ex parte* at 1-3; Maryland Sept. 7, 2001 *ex parte* at Appendix; New Hampshire Sept. 7, 2001 *ex parte* at 2; Kansas Oct. 2, 2001 *ex parte*; California Oct. 2, 2001 *ex parte* at 2; NARUC Sept. 6, 2001 *ex parte* at Appendix A, pp. 4-5. NARUC states that expense and revenue accounts must be created for universal service programs to ensure that carriers' universal service billing rates reflect the needs of the programs. *Id.* NASUCA argues that this is the proceeding where the Commission should create a new revenue account for universal service, which would be preliminary to any final determinations in a separate universal service proceeding. *See* NASUCA Oct. 4, 2001 *ex parte* at 3. Based on a review of the record, it appears that some commenters had a different view of what information these accounts would capture than what we intended. Ohio CC and NASUCA observe that in Ohio, the recipient of the largest amount of federal high cost universal service support includes that amount in Account 5082, Switched access revenue, and this account is

carriers information on amounts recovered from end users for state or federal universal service contributions in FCC Form 499-A Telecommunications Reporting Worksheet.¹³⁵ We therefore see no need to separately track this information from a smaller universe of carriers through the USOA.

75. Moreover, we currently have a proceeding to reform how universal service contributions are assessed and how these costs are recovered from consumers.¹³⁶ One of the options that the Commission could adopt in that proceeding would be to limit the amount that carriers could recover from each end user to the amount they contribute to universal service. Although we decline to prejudge that option here, we note that a separate revenue account for universal service might not be necessary if that option were, after considering other options, adopted. In the meantime, we believe it makes little sense, and that it would be unduly burdensome, to add a new universal service revenue account that we might eliminate soon thereafter. Thus, we decline to amend Part 32 by adding such an account. We also note that there is no need to adopt a universal service expense account, as the amounts that carriers contribute to support universal service are readily available from the Universal Service Administrative Company (USAC).

B. Streamlining the Class B Accounts

76. When the Commission adopted Part 32, a two-tiered system was retained so that smaller carriers would have a less burdensome accounting system than the carriers with annual revenues in excess of the revenue threshold. Currently, we have 113 Class B accounts. In our *June 8 Public Notice*, we sought comment on reducing the number of Class B accounts to 89.¹³⁷ The proposed consolidation of Class B accounts corresponded to our proposal to consolidate

allocated entirely to the interstate jurisdiction, despite the fact that the purpose of the support is to keep local rates low. *See* Ohio CC and NASUCA Joint Comments at 6 & note 9. This argument presumes that a USF revenue account would track revenue (support) received from USAC, rather than revenue received from end-users.

¹³⁵ NARUC observes that the FCC Form 499-A Telecommunications Reporting Worksheet is not audited. NARUC Sept. 6, 2001 *ex parte* at Appendix A, p. 4.

¹³⁶ *See* Federal-State Joint Board on Universal Service, CC Docket No. 96-45, *Notice of Proposed Rulemaking*, FCC 01-145 (rel. May 8, 2001).

¹³⁷ Specifically, we proposed to eliminate the following Class B accounts: Account 1180, Telecommunications accounts receivable; Account 1181, Accounts receivable allowance – telecommunications; Account 1190, Other accounts receivable; Account 1191, Accounts receivable allowance – other; Account 1200, Notes receivable; Account 1201, Accounts receivable allowance; Account 1210, Interest and dividends receivable; Account 1401, Investment in affiliated companies; Account 1402, Investments in nonaffiliated companies; Account 1407, Unamortized debt issuance expense; Account 1408, Sinking funds; Account 1439, Deferred charges; Account 3400, Accumulated amortization – tangible; Account 3500, Accumulated amortization – intangible; Account 3600, Accumulated amortization – other; Account 4010, Accounts payable; Account 4020, Notes payable; Account 4030, Advance billing and payments; Account 4040, Customers deposits; Account 4050, Current maturities – long-term debt; Account 4060, Current maturities – capital leases; Account 4120, Other accrued liabilities; Account 4130, Other current liabilities; Account 4210, Funded debt; Account 4220, Premium on long-term debt; Account 4230, Discount on long-term debt; Account 4240, Reacquired debt; Account 4250, Obligations under capital leases; Account 4260, Advances from affiliated companies; Account 4270, Other long-term debt; Account 4310, Other long-term liabilities; Account 4360, Other deferred credits; Account 5084, State access revenue; Account 6710, Executive and planning; and Account 6790, Provision for uncollectible notes receivable.

Class A accounts. For example, we proposed to consolidate Accounts 1180 through 1210, which are both A and B accounts. The RUS urges us not to eliminate any of the Part 32 accounts below the existing Class B level of detail.¹³⁸ RUS argues that further streamlining at this time could result in insufficient information for the Commission, state regulators, and the RUS to make informed decisions that impact the telecommunications industry.¹³⁹ For example, the RUS loans funds to carriers and requires more disaggregated liability information to assess its risk exposure. In addition, some of the collapsed information could be relevant in state rate-of-return proceedings. Oregon also disagrees with our proposal in several respects, and notes that if we eliminate certain Class B accounts, it will require Class B carriers in Oregon to continue to report this information.¹⁴⁰

77. After reviewing the record, we conclude that our Class B account consolidation should correspond with our Class A account consolidation. Permitting aggregation of our Class A accounts without similarly aggregating the corresponding Class B accounts would be contrary to our intent to adopt a less burdensome accounting system for the Class B carriers.¹⁴¹ We remain open to further streamlining Class B accounts in the event future proponents can demonstrate that such streamlining is acceptable or appropriate more persuasively than we find on the record before us here.

78. In the *Notice*, the Commission sought comment on USTA's proposal to eliminate the Jurisdictional Difference Accounts (accounts 1500, 4370, and 7910) that Class B carriers currently must report.¹⁴² After careful review, we agree with the states of Oregon and Wisconsin that the jurisdictional difference accounts should not be eliminated.¹⁴³ A number of states are required by state law to use the federal USOA.¹⁴⁴ If we were to eliminate these accounts at the federal level, those states would have no means to track any variances in ratemaking practices between the federal and state jurisdictions. For example, states use these accounts to record differences related to state-mandated depreciation rates and special state accounting requirements. These differences cannot be recorded to the plant accounts, because this would distort future state depreciation determinations. To the extent state practices vary, carriers must comply with those state rules, so there should be little incremental burden in determining the net difference in state and federal accounts. Accordingly, we will retain the jurisdictional difference accounts.

¹³⁸ RUS PN Comments at 1.

¹³⁹ *Id.* The RUS states that aggregation below the Class B level of detail will provide insufficient information to enable it to carry out its mission required by the Rural Electrification Act in an efficient and effective manner while maintaining its fiduciary duty to the taxpayer. *Id.*

¹⁴⁰ Oregon PN Comments at 2-3.

¹⁴¹ Consistent with our actions with respect to Class A accounts, we are not consolidating some of the accounts we proposed to consolidate in the *Notice* or *June 8 Public Notice*; e.g., Account 4040, Customers deposits. Such accounts, which are both Class A and Class B accounts, will not be consolidated for either class.

¹⁴² See June 9, 2000 letter from Linda Kent, USTA to JoAnn Lucanik and Tim Peterson, Accounting Safeguards Division, Common Carrier Bureau, FCC ("USTA Letter") at Attachment A. See also USTA PN Comments at 3.

¹⁴³ See, e.g., Oregon Comments at 4; Oregon PN Comments at 1; Wisconsin Comments at Attachment A, pp. 2, 7, 17. See also Ohio CC PN Reply Comments at 4.

¹⁴⁴ See Further Notice of Proposed Rulemaking at paragraph 207.

C. Other Regulatory Relief Applicable to All Carriers

79. In the *Notice*, we sought comment on a variety of additional, proposed measures to provide carriers, both Class A and Class B, with meaningful relief from many other accounting requirements. As set out in this section, we have adopted, in full or in large part, the great majority of these proposed changes to our rules.

1. Regulatory Relief Provided in Full

a. Inventories

80. Commission rule 32.1220(h), requires that inventories of material and supplies be taken during each calendar year and that adjustments to this account be charged or credited to Account 6512, Provisioning expense.¹⁴⁵ Section 32.2311(f) of the Commission's rules requires an annual inventory of all station apparatus in stock included in this account.¹⁴⁶ We sought comment on USTA's proposal to eliminate the detailed inventory requirements in the rules and instead permit companies to perform inventories based on risk assessment and on existing controls.¹⁴⁷ In the *Notice*, the Commission sought comment on whether to adopt USTA's proposal to eliminate these inventory requirements. Only one commenter disagreed with this proposal, observing that inventory records are often of low priority and may be significantly out-of-date.¹⁴⁸ Other commenters addressing this issue support eliminating these inventory requirements.¹⁴⁹

81. We conclude that companies should have the latitude to determine the appropriate inventory validation methodology based on risk assessment.¹⁵⁰ In this case, considering the small percentage of the total physical assets involved, the level of effort and cost incurred to ensure the integrity of asset values should be commensurate with the level of financial risk involved.¹⁵¹ Surrogate measures such as inventory cycle counts and statistical sampling measures may be more cost effective for a carrier than a complete physical inventory.¹⁵² We therefore adopt USTA's proposal and revise sections 32.1220(h) and 32.2311(f) to eliminate the annual inventory requirement.

¹⁴⁵ 47 C.F.R. § 32.1220(h).

¹⁴⁶ Section 32.2311(f), 47 C.F.R. § 32.2311(f), provides: An annual inventory shall be taken of all station apparatus in stock that are included in this account. The number of such station apparatus item as determined by this inventory, together with the number of all other station apparatus items included in this account, shall be compared with the corresponding number of station apparatus items as shown by the respective control records. The original cost of any unreconciled differences thereby disclosed shall be adjusted through Account 3100, Accumulated Depreciation. Appropriate verifications shall be made at suitable intervals and necessary adjustment between this account and Account 3100 shall be made for all station apparatus included in this account.

¹⁴⁷ See *Notice* at ¶ 37; USTA Petition for Rulemaking – 2000 Biennial Regulatory Review (filed August 11, 1999) (“USTA Petition”) at 24 & Attachment at 2.

¹⁴⁸ Wyoming Comments at 2.

¹⁴⁹ Sprint Comments at 11; Verizon Comments at 6; USTA Comments at 12.

¹⁵⁰ Sprint Comments at 11.

¹⁵¹ *Id.* Sprint notes that its material and supplies and station apparatus inventory balances stated as a percent of total physical assets are less than one quarter of one percent and one half of one percent, respectively. *Id.*

¹⁵² *Id.*

b. Contributions

82. We adopt, for federal accounting purposes, Statement of Financial Accounting Standards No. 116 (SFAS-116), "Accounting for Contributions Received and Contributions Made." SFAS-116 requires companies to record in the current period a liability and related expense for unconditional pledges to make contributions in future years. Prior to adoption of SFAS-116, companies would record such pledges annually when the contributions were made. In 1994, shortly after FASB adopted SFAS-116, the Common Carrier Bureau (Bureau) informed carriers not to adopt SFAS-116 for federal accounting purposes.¹⁵³ In the *Notice*, the Commission sought comment on adopting SFAS-116 for federal accounting purposes.¹⁵⁴

83. Our primary concern is the effect such a rule could have on the carriers' rates. As commenters note, our adoption of SFAS-116 would allow carriers to record increased expenses in a given year to reflect contributions pledged for future years. In turn, the Commission's exogenous cost rules, which allow carriers under price caps to increase their interstate rates to reflect cost increases caused by accounting changes, would allow carriers to recover the entire amount of the pledged contributions as an exogenous cost in the year the accounting change is adopted.¹⁵⁵ Adopting SFAS-116, however, would establish an accounting rule that would be consistent with GAAP. The Commission's rules require financial records to be kept in accordance with GAAP, to the extent permitted by our system of accounts.¹⁵⁶ Our goal is to bring our accounting rules into conformity with GAAP, to the extent consistent with our regulatory needs. Accordingly, we adopt SFAS-116 for federal accounting purposes and direct the Bureau to monitor the carriers' accounting treatment of contributions to determine whether implementation of SFAS-116 has a significant impact on rates.

c. Section 252(e) agreements

84. In the *Notice*, the Commission sought comment on USTA's proposal that the Commission clarify that section 252(e) agreements are treated the same as tariffed services in Part 64 cost allocation rules.¹⁵⁷ USTA's proposal was supported by incumbent LEC and state commenters.¹⁵⁸ Based on the record before us, we adopt USTA's proposal. Accordingly, to the extent a carrier provides a non-tariffed service to its nonregulated operations pursuant to a section 252(e) agreement, that service will be recorded to nonregulated operations at the amount of that

¹⁵³ Notification of Intent to Adopt Statement of Financial Accounting Standards No. 116 (SFAS-116), "Accounting for Contributions Received and Contributions Made," AAD 94-156, *Order*, 10 FCC Rcd 1567 (Com.Car.Bur. 1994). Under our rules, carriers may implement changes in accounting standards after 90 days, unless directed otherwise by the Commission.

¹⁵⁴ *Notice* at ¶ 26.

¹⁵⁵ Utah Comments at 3; AT&T Comments at 5-6; WorldCom Reply Comments at 5-6. Sprint also observes that a carrier under price cap regulation could "bunch up" future years' contributions in one year and that allowing a "lumpy" expense would violate good regulatory policy by causing a price increase solely due to the timing of pledges. Sprint Comments at 12. Sprint suggests that we not allow a carrier to adopt SFAS-116 until that carrier elects pricing flexibility. *Id.* at 13.

¹⁵⁶ 47 C.F.R. § 32.12.

¹⁵⁷ *See Notice* at ¶ 27.

¹⁵⁸ *See, e.g.*, Oregon Comments at 5; Wisconsin Comments at 10; Sprint Comments at 14; Verizon Comments at 9.

service as set forth in an interconnection agreement approved by a state commission pursuant to section 252(e).

2. Regulatory Relief Provided in Part

a. Affiliate transactions rules

85. In 1987, the Commission adopted affiliate transactions rules to protect ratepayers of regulated telecommunications services from bearing the costs and risks associated with a carrier's nonregulated activities.¹⁵⁹ The affiliate transactions rules set forth the procedures that all incumbent LECs, other than average schedule companies, must use in recording transactions between regulated entities and nonregulated affiliates.¹⁶⁰ The underlying policy concern is that the risk of cost misallocation is increased when carriers engage in transactions with nonregulated affiliates. The affiliate transactions rules discourage such misallocation of costs by requiring carriers to follow appropriate valuation techniques in recording the transfer of assets and the provision of services between regulated entities and their nonregulated affiliates.

86. After Congress adopted the 1996 Act, the Commission revised its long-standing affiliate transactions rules in order to implement the statutory provisions prohibiting cross-subsidization. In the *Accounting Safeguards Order*, the Commission modified the affiliate transactions rules to provide greater protection against subsidization of competitive activities by subscribers to regulated telecommunication activities.¹⁶¹ The Commission concluded that its revised affiliate transactions rules would promote competition by preventing LECs from using their market power in local exchange services to obtain an anti-competitive advantage in other markets, such as the market for in-region interLATA service.¹⁶² The Commission amended the affiliate transactions rules for assets and services provided by a carrier to its affiliate and services received by a carrier from its affiliate. Under these rules, such transactions are to be valued at publicly available rates, if possible.¹⁶³ The publicly available rates, in order of precedence, are (1) an existing tariff rate, (2) (for services only) a publicly filed agreement or statements of generally available agreements, or (3) a qualified prevailing price valuation.¹⁶⁴ If there is no tariff price for the asset, and the transfer does not qualify for prevailing price treatment, the carrier must compare the asset's net book cost to its fair market value and value it at the higher of the two if the transfer is from the (regulated) carrier, and at the lower of the two if the transfer is to the (regulated) carrier.¹⁶⁵ Carriers must make a good faith determination of the asset's fair market

¹⁵⁹ See *Joint Cost Order*.

¹⁶⁰ See 47 C.F.R. § 32.27.

¹⁶¹ Accounting Safeguards under the Telecommunications Act of 1996, CC Docket No. 96-150, *Report and Order*, 11 FCC Rcd 17539 (1996) (*Accounting Safeguards Order*), *recon.*, *Order on Reconsideration in CC Docket No. 96-150*, 14 FCC Rcd 11396 (1999), *Second Order on Reconsideration*, 15 FCC Rcd 1161 (2000). A subsidy occurs when the reasonable costs associated with a service are not covered by the revenues generated by that service, but are instead covered by revenues generated by one or more other services. See *Accounting Safeguards Order*, 11 FCC Rcd at 17541-42 & n.4, ¶ 1.

¹⁶² See *id.* at 17638-39, ¶ 218.

¹⁶³ An exception to this rule is that services received by a carrier from its affiliate that exists solely to provide services to members of the carrier's corporate family shall be recorded at fully distributed cost. See 47 C.F.R. § 32.27(c).

¹⁶⁴ 47 C.F.R. § 32.27(c).

¹⁶⁵ 47 C.F.R. § 32.27(b).

value.¹⁶⁶ As discussed below, we take a number of steps to simplify our affiliate transactions rules so that carriers have greater flexibility in how they price transactions with affiliates.

(i) Eliminate requirement for FMV comparison for asset transfers under \$500,000

87. We revise our affiliate transactions rules to eliminate the requirement that carriers make a fair market value comparison for assets when the total annual value of that asset is less than \$500,000. As discussed above, our current affiliate transactions rules require all carriers to record the value of an asset according to a hierarchy. In the *Phase 1 Report and Order*, the Commission eliminated the requirement that carriers make a good faith determination of fair market value for services when the total annual value of that service is less than \$500,000.¹⁶⁷ The Commission noted that below that threshold, the administrative cost and effort of making such a determination would outweigh the regulatory benefits of a good faith determination of fair market value. In such cases, the service should be recorded at fully distributed cost.

88. In the *Notice*, the Commission proposed a conforming exemption for assets.¹⁶⁸ Under the proposal, carriers would not be required to perform the net book cost/fair market value comparison for asset transfers totaling less than \$500,000 per year. For assets within this exception, carriers would use net book cost instead of fair market value. This exception would be on a product-by-product basis similar to the services-by-services basis on which we base the services threshold. The exception would apply “going forward,” so that the net book cost/fair market value comparison would be required once the total amount of transfers (*i.e.*, total net book cost) for a given product line in a given year exceeds \$500,000.

89. Contrary to the assertions of some commenters,¹⁶⁹ we are not persuaded that we should adopt a \$1 million threshold for making the net book cost/fair market value determinations. The purpose of this threshold is to avoid the situation where the cost of determining fair market value would outweigh the regulatory benefits of such a determination. Commenters advancing the \$1 million threshold have not presented any persuasive arguments justifying that \$1 million is the appropriate threshold. Furthermore, these commenters have not provided any evidence of the costs involved in conducting the net book cost/fair market value comparison.

90. We conclude that the threshold should be the same for both assets and services. In the *Phase 1 Report and Order*, the Commission adopted a \$500,000 threshold for services, balancing the desire to provide accounting relief while not creating an exception so large that it would swallow the rule. We now adopt a similar rule for assets, which eliminates an incentive for companies to turn “assets” into “services.” In both cases, the threshold should be applied to the aggregate transactions, for a given affiliate. Carriers, therefore, will not be required to perform the net book cost/fair market value comparison for the first \$500,000 of asset transfers, on a product-by-product basis, per year, per affiliate. In such cases, the asset should be recorded at net book cost. The net book cost/fair market value comparison would be required on a

¹⁶⁶ *Id.*

¹⁶⁷ *Phase 1 Report and Order*, 15 FCC Rcd at 8701, ¶ 20.

¹⁶⁸ *See Notice* at ¶ 34.

¹⁶⁹ *See, e.g.*, Sprint Comments at 14-15; Verizon Comments at 9; USTA Comments at 17-18.

prospective basis once the total amount of asset transfers for a given product line in a given year exceeds \$500,000.¹⁷⁰ Carriers (except average schedule companies) will reflect these transactions in their CAMs as well as ARMIS reports, if ARMIS filing is required. Adopting this \$500,000 threshold exception for each affiliate will reduce the burden of performing the net book cost/fair market value comparison.

(ii) Establish floor and ceiling for recording transactions

91. In the *Notice*, the Commission sought comment on whether ratepayers would be harmed if carriers had flexibility to use the higher or lower of cost or market valuation as either a floor or ceiling. As discussed above, for certain transactions carriers must compare the cost of the service or asset to market value.¹⁷¹ If the carrier is the recipient of the asset or service, it must be recorded on the carrier's books at the lower of cost or market. If the carrier is the provider, it must be recorded at the higher of cost or market. The Commission proposed giving carriers flexibility in valuing these transactions by allowing the higher or lower of cost or market valuation to operate as either a floor or ceiling, depending on the direction of the transaction.¹⁷²

92. We agree with those commenters that argue that this proposal would not harm ratepayers because it would permit the regulated carrier to either pay less or charge more to the nonregulated affiliate for the service or asset.¹⁷³ We recognize that adopting a ceiling and floor for recording affiliate transactions could potentially have an anti-competitive effect.¹⁷⁴ It seems unlikely, however, that a transaction would have such an effect, particularly if the transaction is *de minimis* and is not priced below incremental cost.¹⁷⁵ We therefore adopt the proposal in the

¹⁷⁰ This is similar to how the threshold applies to services. If carriers were not allowed to look at asset or service transactions prospectively, all transactions would have to be analyzed for fully distributed cost and fair market value. The exception that we adopt here would then be illusory.

¹⁷¹ 47 C.F.R. § 32.27(b) – (c).

¹⁷² For example, if the transaction were from the carrier to the nonregulated affiliate, the higher of cost or market valuation would function as the floor amount, *i.e.*, the carrier could value the asset or service at that amount or higher. If the transaction were from the nonregulated affiliate to the carrier, the lower of cost or market valuation would function as the ceiling, *i.e.*, the incumbent carrier could value the asset or service at that amount or lower. Therefore, if a carrier purchased an asset from one of its nonregulated affiliates with a net book cost of \$750,000 and a fair market value of \$1,000,000 (and no tariff rate or prevailing price), our current rules would require the carrier to book the asset at \$750,000, which is the lower of cost or market. The proposal in the *Notice*, on the other hand, would allow the carrier to record the asset at any price up to \$750,000.

¹⁷³ See, *e.g.*, Sprint Comments at 15; GSA Comments at 6; USTA Comments at 18-19.

¹⁷⁴ See Wyoming Comments at 2-3; Wisconsin Comments at 13.

¹⁷⁵ For dominant carriers, Commission rules prohibit pricing below incremental cost to prevent predatory pricing. See Policy and Rules Concerning Rates for Dominant Carriers, CC Docket No. 87-313, *Second Report and Order*, 5 FCC Rcd 6786, 6824, ¶ 310 (1990) (requiring price to exceed average variable cost, used as a surrogate for incremental cost). Also see Amendments to Part 69 of the Commission's Rules Relating to the Creation of Access Charge Subelements for Open Network Architecture, CC Docket No. 89-79, *Memorandum Opinion and Order on Second Further Reconsideration*, 7 FCC Rcd 5235, 5237, ¶ 12 (1992) (requiring price of a new service to exceed direct costs). The Commission has not extended those rules to non-dominant carriers. Economists explain that such carriers would have nothing to gain by pricing an entire product line below incremental cost because they could not recoup their losses. See F. M. Scherer, *Industrial Market Structure and Economic Performance*, Second Edition (Chicago: Rand McNally, 1980), 335-40.

Notice to give carriers flexibility by allowing the higher or lower of cost or market valuation to operate as either a floor or ceiling, depending on the direction of the transaction. Carriers can use the ceiling or floor in transactions with affiliates, as long as such transaction complies with the Communications Act, Commission rules and orders, and is not otherwise anti-competitive.¹⁷⁶

(iii) Prevailing price treatment

93. In the *Notice*, the Commission sought comment on USTA's proposal to revise the prevailing price definition.¹⁷⁷ The prevailing price describes a price at which a company offers an asset or service to the general public. Under our current rules, to qualify for prevailing price treatment, greater than 50 percent of sales of the subject asset or service must be to third parties.¹⁷⁸ USTA proposes that the Commission revise section 32.27(d) to decrease the threshold from greater than 50 percent to 25 percent for use of prevailing price in valuing affiliate transactions.¹⁷⁹

94. After reviewing the record, we adopt USTA's proposal.¹⁸⁰ The purpose of the Commission's threshold is to ensure that sufficient transactions occur with unaffiliated parties to produce a reasonable surrogate of a true market price. If the percentage of third-party business is *de minimis*, there can be no assurance that the price agreed upon by the carrier and its affiliates represents the true market price or that the amount of sales represents a significant influence on the carrier's pricing decisions.¹⁸¹ Our general approach is to ask whether a particular company conducts a substantial portion of its transactions with unaffiliated third parties outside of the corporate family; if so, it is reasonable to presume that firm is indeed pricing those transactions in a marketplace environment and that this level of sales does significantly influence the carrier's pricing policy. We are skeptical that it is a sustainable strategy for a firm significantly to underprice transactions with 25 percent of its customers in order to be able to record transactions at that price with an affiliate. As USTA observes, a lower threshold would be consistent with a more competitive environment.¹⁸² We will grant the relief requested by USTA and will monitor the situation to determine whether this modification has any unintended consequences.

(iv) Centralized services exception to estimated fair market value rule

95. In the *Notice*, the Commission sought comment on USTA's proposal to expand the current exception to the estimated fair market value rule to include "all services provided by a

¹⁷⁶ We note that section 272(b)(5) of the Communications Act requires arm's length transactions between a BOC and its section 272 affiliate. 47 U.S.C. § 272(b)(5). Recording a transaction at the higher or lower of cost or market as a floor or ceiling may not meet our definition of "arm's length," and therefore may not be used in transactions where arm's length transactions are required under the Communications Act or otherwise required by Commission rule or order.

¹⁷⁷ See *Notice* at ¶ 29.

¹⁷⁸ 47 C.F.R. § 32.27(d). Under our current rules, if third party sales are less than 50 percent, there is no prevailing price and the asset or service must be valued based on a comparison of cost and fair market value.

¹⁷⁹ See USTA Letter at Attachment A.

¹⁸⁰ Sprint and BellSouth support USTA's proposal. See Sprint Comments at 14; BellSouth Sept. 7, *ex parte*.

¹⁸¹ *Id.* at ¶ 134. See Wisconsin Comments at 11.

¹⁸² USTA Comments at 16.

carrier or its affiliate(s) where the service is provided solely to members of the carrier's corporate family."¹⁸³ Under our current affiliate transactions rules, if a transaction cannot be valued at publicly available rates, it must be valued based on a comparison of cost and fair market value.¹⁸⁴ If a comparison is used, the carrier must make a good faith determination of fair market value.¹⁸⁵ If the regulated company purchases the asset or service from a nonregulated affiliate, the carrier must record the transaction at the lower of cost or market value.¹⁸⁶ On the other hand, if the carrier sells the asset or service to a nonregulated affiliate, the carrier must record the transaction at the higher of cost or market.¹⁸⁷ The Commission adopted this valuation rule in the *Accounting Safeguards Order* to ensure that the transactions between the carriers and their nonregulated affiliates take place on an "arm's length" basis, guarding against cross-subsidization of competitive services by subscribers to regulated services.¹⁸⁸

96. The exception USTA seeks to expand provides that when an incumbent carrier purchases services from an affiliate that exists solely to provide services to members of the carrier's corporate family, the carrier may record the services at fully distributed cost rather than applying the cost or market rule. When the Commission adopted this exception in the *Accounting Safeguards Order*, it explained that the narrow exception to the general rule was justified because an affiliate that provides services solely to the incumbent carrier's corporate family is established to take advantage of economies of scale and scope. The benefits of such economies of scale and scope are reflected in the affiliate's costs and are ultimately transferred to ratepayers through transactions with the incumbent carrier for such services valued at fully distributed costs.¹⁸⁹ Requiring incumbent carriers to perform fair market valuations for such transactions would increase the cost to ratepayers while providing limited benefit.¹⁹⁰

¹⁸³ See USTA Comments at 17.

¹⁸⁴ We use net book cost for assets and fully distributed cost for services. Net book cost is the original cost of an asset adjusted by the associated valuation reserves (e.g., accumulated depreciation, deferred taxes). Fully distributed cost is the cost determined in a manner that complies with the standards and procedures for apportionment of joint and common costs between the regulated and nonregulated operations of the carrier. See 47 C.F.R. § 64.901(b).

¹⁸⁵ Carriers may make good faith determinations based on "appraisals, catalogs listing similar items, competitive bids, replacement cost of an asset, and net realizable value of an asset." *Accounting Safeguards Order*, 11 FCC Rcd at 17610, ¶ 154.

¹⁸⁶ 47 C.F.R. § 32.27(b) – (c).

¹⁸⁷ *Accounting Safeguards Order*, 11 FCC Rcd at 17607, ¶ 147.

¹⁸⁸ Prior to adopting the *Accounting Safeguards Order*, our valuation rules required a carrier to record services sold to a nonregulated affiliate at the carrier's fully distributed cost. This applied even when the fully distributed cost was less than the fair market value. Under such circumstances, the carrier would obtain a smaller profit from the transaction with the affiliate than it could receive from a third party for the same service. In addition, carriers were required to record services purchased from a nonregulated affiliate at the affiliate's fully distributed cost, even if the fully distributed cost was higher than the fair market value. As a result, ratepayers may have been harmed if a carrier's smaller profits or increased costs were reflected in the rates for telecommunications services. In addition, competitors for non-regulated services may have been harmed if the valuation methods for affiliate transactions induced carriers and their affiliates to use services that were not competitive to subsidize non-regulated services, thereby putting competitors to a disadvantage. The Commission concluded that such valuation rules might not be consistent with the section 272(b)(5) requirement that transactions be conducted "on an arm's length basis." *Id.*

¹⁸⁹ *Id.*

¹⁹⁰ *Id.*

97. USTA proposes that we expand the current exception to the estimated fair market value rule to include “all services provided by a carrier or its affiliate(s) where the service is provided solely to members of the carrier’s corporate family.”¹⁹¹ Under USTA’s proposal, an affiliate could have one service that is offered solely to the corporate family, which USTA proposes would be subject to the exception, and other services that are subject to market valuation studies because they are offered to third parties. USTA also suggests an alternative: “All services provided by an affiliate that exists primarily to serve members of the carriers’ corporate family (provides over 50 percent) and individual services provided by an ILEC primarily to members of a carriers’ corporate family (provides over 50 percent) shall be recorded at fully distributed cost.”¹⁹² Most commenters addressing this issue support USTA’s proposal to expand the exception to the estimated fair market value rule.¹⁹³

98. We are not persuaded at this time that we should expand the scope of the exception to the valuation rule. The Commission adopted the exception in order to relieve incumbent carriers from performing a fair market valuation in circumstances where the burdens outweighed the benefits. If, as USTA proposes, the exception is applied based on an individual service being offered solely to the corporate family, while other services of the affiliate are subject to market valuation studies because they are offered to third parties, the risk of improper cross-subsidization increases. For example, if an affiliate offers several services of which only one is provided solely within the corporate family and subject to the exception, the carrier would need to assign costs between the excepted service and the other services. Such allocations could shift costs between services offered outside the corporate family and services offered to the incumbent carrier. This increased risk of cost shifting applies equally to USTA’s alternative proposal wherein the exception would apply to affiliates that exist primarily to serve members of the carrier’s corporate family and to individual incumbent LEC services provided primarily to the carrier’s corporate family. This risk of cost shifting between third party services and the incumbent carrier’s services does not exist when the exception applies only to affiliates offering service within the corporate family.

99. There are several potential ramifications of cost misallocations arising out of affiliate transactions. First, the affiliate transactions rules apply to rate-of-return carriers as well as price caps carriers. Second, there are price caps carriers that can still avail themselves of low-end adjustments. Third, cost misallocations could impact the development of pricing for new services by price cap carriers. Fourth, even in the event that federal ratepayers are protected from cost misallocations by the imposition of price caps or CALLS, state ratepayers can be affected. Inappropriate shifting of costs from nonregulated activities to regulated activities would result in inflated regulated costs prior to separations. After the separations process, those inflated costs would flow to the state jurisdiction, and eventually would be recovered from state ratepayers. Although we do not adopt USTA’s and BellSouth’s proposal to broaden the centralized services exception, in an attached Further Notice of Proposed Rulemaking, we seek further comment on this rule and potential alternatives.

¹⁹¹ See USTA Comments at 17.

¹⁹² See USTA Reply Comments at 15.

¹⁹³ See, e.g., CBT Comments at 6-7; ITTA Comments at 24; Verizon Comments at 9-10. See also BellSouth August 2, 2001 *ex parte*. NASUCA opposes weakening our affiliate transactions rules. See NASUCA Oct. 4, 2001 *ex parte* at 2.

**(v) Exempt nonregulated to nonregulated transactions
from the affiliate transactions rules**

100. Our affiliate transactions rules apply to all transactions between carriers (except for average schedule companies) and their nonregulated affiliates that affect the carrier's regulated books of account.¹⁹⁴ Transactions involving nonregulated assets and services are subject to our affiliate transactions rules.¹⁹⁵ In the *Notice*, the Commission proposed that the affiliate transactions rules should not apply to nonregulated activities transferred from the carrier's nonregulated operations to its nonregulated affiliate.¹⁹⁶ We defer action on this proposal, as it raises broader issues that should be considered in a more comprehensive fashion.¹⁹⁷

b. Section 32.5280(c) subsidiary record requirement

101. In the *Notice*, the Commission sought comment on USTA's proposal to eliminate the section 32.5280(c) subsidiary record requirement.¹⁹⁸ This rule requires carriers to maintain subsidiary record categories for each nonregulated revenue item recorded in Account 5280, Nonregulated operating revenue.¹⁹⁹ USTA contends that this subsidiary record requirement is unnecessary.

102. We conclude that we can simplify the manner in which incumbent LECs record their nonregulated revenues, but stop short of eliminating section 32.5280(c) altogether. Account 5280 may include revenues from services that are still regulated at the state level.²⁰⁰ In addition, in the *Accounting Safeguards Order*, the Commission concluded that BOC-provided interLATA telecommunications services, although regulated services, should be treated like nonregulated activities for federal accounting purposes.²⁰¹ We conclude that we do not need incumbent LECs to break out each nonregulated revenue item. Rather, we modify section 32.5280(c) so that LECs may group their nonregulated revenues into two groups: one subsidiary record for all the revenues from regulated services treated as nonregulated for federal accounting purposes pursuant to Commission order and the second for all other nonregulated revenues. In the event further detail is required, we can request carriers to break out these nonregulated revenues by subsidiary.

¹⁹⁴ 47 C.F.R. § 32.27(a). Nonregulated activities are recorded in the regulated books of account when they involve use of assets and resources also used in regulated activities. 47 C.F.R. § 32.23(c).

¹⁹⁵ See, e.g., Citizens Utilities Company Permanent Cost Allocation Manual for the Separation of Regulated and Nonregulated Costs, *Memorandum Opinion and Order*, 11 FCC Rcd 4676 (Com. Car. Bur. 1996).

¹⁹⁶ Carriers must list their nonregulated activities in Section II of their CAMs. See Responsible Accounting Officer Letter 19, 6 FCC Rcd 7536 (1991).

¹⁹⁷ We note, however, that commenters addressing this issue supported the proposal. See, e.g., Sprint Comments at 15-16; GSA Comments at 6; Verizon Comments at 9; USTA Comments at 19.

¹⁹⁸ *Notice* at ¶ 27; 47 C.F.R. § 32.5280(c).

¹⁹⁹ Account 5280, Nonregulated operating revenue is an account maintained by Class A and Class B carriers.

²⁰⁰ See Oregon Comments at 4; RUS Comments at 2.

²⁰¹ *Accounting Safeguards Order*, 11 FCC Rcd at 17572-73, 17652-55, ¶¶ 73-76, 251-57.

c. Accounts 1437 and 4361

103. In the *Notice*, the Commission sought comment on USTA's proposal to simplify deferred tax accounting by allowing carriers to book Account 1437, Deferred tax regulatory asset net of Account 4361, Deferred tax regulatory liability. USTA argues that carriers should be permitted to eliminate the requirement to calculate the gross up for the tax on tax effect.²⁰² Commenters addressing this issue contend, and we agree, that netting Accounts 1437 and 4361 would simplify deferred tax accounting.²⁰³ We, therefore, revise sections 32.1437 and 32.4361 accordingly to reflect this change. We do not, however, agree with USTA that the requirement to gross-up for the tax on tax effect should be eliminated. The regulatory asset and liability accounts, as well as the tax gross up on the accounts, were incorporated into the USOA to allow carriers to adopt the GAAP method of accounting for income taxes without affecting rates or the IRS normalization requirements. We believe that eliminating the tax on tax gross up would cause us to possibly violate the IRS normalization rules with respect to investment tax credit and excess deferred tax amounts. Accordingly, we will retain the tax on tax gross up requirement in Part 32.

d. Expense limits

104. We revise the expense limit rules to include tools and test equipment located in the central office in the \$2000 expense limit. Section 32.2000(a)(4) of the Commission's rules requires that the cost of individual items of equipment with a cost of \$2000 or less or having a life of less than one year, classifiable in specified accounts, shall be charged to the applicable expense accounts rather than capitalized.²⁰⁴ The expense limit reduces the cost of maintaining property records for the acquisition, depreciation, and retirement of a multitude of low-cost, high-volume assets. This expense limit applies to equipment classifiable in Account 2112, Motor vehicles; Account 2113, Aircraft; Account 2114, Tools and other work equipment; Account 2122, Furniture; Account 2123, Office equipment; and Account 2124, General purpose computers, except for personal computers falling within Account 2124. Personal computers classifiable to Account 2124, with a total cost for all components of \$500 or less, are charged to the applicable Plant Specific Operations Expense accounts. We have periodically increased the expense limit due to the effects of inflation, technological changes, and changes in the telecommunications regulatory environment.²⁰⁵ In addition, Responsible Accounting Officer Letter No. 6, increased

²⁰² USTA Comments at 13.

²⁰³ See, e.g., Oregon Comments at 4; Wisconsin Comments at 8; Sprint Comments at 13; Verizon Comments at 8; USTA Comments at 13.

²⁰⁴ 47 C.F.R. § 32.2000(a)(4).

²⁰⁵ The limit was raised from \$25 to \$50 in 1974, see Amendment of Part 31 (Uniform System of Accounts for Class A and Class B Telephone Companies) to Increase the Monetary Limit Where Capitalization is Appropriate from \$25 to \$50, Docket No. 20110, *Report and Order*, 47 FCC 2d 1153 (1974), from \$50 to \$200 in 1981, see Amendment of the Uniform System of Accounts to Increase the Dollar Limit for Expensing Minor Items, CC Docket No. 81-273, *Report and Order*, 87 FCC 2d 1137 (1988), from \$200 to \$500 in 1988, see Revision to Amend Part 31, Uniform System of Accounts for Class A and Class B Telephone Companies as it Relates to the Treatment of Certain Individual Items of Furniture and Equipment Costing \$500 or Less, CC Docket No. 87-135, *Report and Order*, 3 FCC Rcd 4464 (1988), and from \$500 to \$2000, Revision to Amend Part 32, Uniform System of Accounts for Class A and Class B Telephone Companies to Raise the Expense Limit for Certain Items of Equipment from \$500 to \$2000, CC Docket No. 95-60, *Report and Order*, 12 FCC Rcd 7566 (1997) (*Expense Limit Order*). In the *Expense Limit Order*, we specifically excluded from the \$2000 expense limit all personal computer components falling within Account 2124, General purpose computers. The cost of operating system software was

from \$200 to \$500 the limit for expensing the tools and test equipment included in the central office plant accounts.²⁰⁶

105. In the *Notice*, the Commission sought comment on whether the expense limit rules should be modified again. Specifically, the Commission sought comment on raising the expense limit from \$500 to \$2000 for both Account 2124, General support computers and the tools and test equipment included in the central office plant accounts.

106. We conclude that the tools and test equipment located in the central office should be included in the \$2000 limit because these assets are virtually the same as the tools and test equipment located in the general support function.²⁰⁷ Moreover, tools and test equipment are generally individual units rather than components of a larger unit. Therefore, we are revising our expense limit rules to include the central office tools and test equipment.

107. We conclude that we should not increase the expense limit to \$2000 for personal computers. As several commenters observe, circumstances have not changed significantly since 1997, and an extension of the expense limit to all plant accounts is not warranted.²⁰⁸ Moreover, commenters assert that personal computers and peripheral equipment generally cost less than \$1000 and increasing the expense limit to \$2000 would result in very little, if any, capitalization of these assets.²⁰⁹ We conclude that personal computers should be subject to a special limit because of the nature of these assets. Individual personal computers are made up of relatively low cost components, such as the monitor, keyboard, and CPU, that should be looked at as a single unit for purposes of applying the expense limit. Moreover, although relatively low cost individually, personal computers are part of larger networks within each company and represent substantial investments. These investments should be capitalized. Accordingly, we do not revise the rules regarding personal computers.

e. Incidental activities

108. We adopt the proposal in the *Notice* to eliminate the “treated traditionally” requirement from incidental activities. Under section 32.4999(l) of the Commission’s rules, revenues from minor nontariffed activities that are an outgrowth of the carrier’s regulated activities may be recorded as regulated revenues under certain conditions.²¹⁰ These activities, known as “incidental activities,” must: (1) be an outgrowth of regulated operations; (2) have been treated traditionally as regulated; (3) be a non-line-of business activity; and (4) result in

excluded from the \$500 expense limit for personal computers. *See Accounting Reductions Report and Order*, 14 FCC Rcd at 11420, ¶ 50.

²⁰⁶ Responsible Accounting Officer Letter 6, Part 32, Uniform System of Accounts for Class A and Class B Carriers - Item Lists, 4 FCC Rcd 1965 (revised Feb. 13, 1989, rel. Feb 27, 1989).

²⁰⁷ *See, e.g.*, Florida Comments at 9; NARUC Comments at 7; Idaho Comments at 6; Wisconsin Comments at 14; Sprint Comments at 17; GSA Comments at 7 & Reply Comments at 13; Verizon Comments at 10; USTA Comments at 20.

²⁰⁸ *See, e.g.*, Florida Comments at 9; NARUC Comments at 7; Idaho Comments at 6.

²⁰⁹ *See, e.g.*, Florida Comments at 9; NARUC Comments at 8; Idaho Comments at 6. *See also* GSA Reply Comments at 13.

²¹⁰ 47 C.F.R. § 32.4999(l).

revenues that, in the aggregate, represent less than one percent of total revenues for three consecutive years.²¹¹

109. Accounting for incidental activities as regulated revenues obviates the need to make detailed cost allocations to remove the costs of the nonregulated activity from regulated costs. Carriers must list their incidental activities in their CAM.²¹² They may not add new incidental activities because of the “treated traditionally” criterion. In the *Notice*, the Commission proposed eliminating the “treated traditionally” criterion. This would permit carriers to add to their incidental activities, provided that the remaining three criteria were satisfied. We find that the three remaining criteria provide sufficient safeguards to prevent misuse of the incidental activities exception. This modification will result in a lessened regulatory burden as new incidental activities are identified.²¹³

110. We are not persuaded that the one-percent revenue ceiling should be raised.²¹⁴ Incidental activity accounting allows carriers to avoid the burden of full nonregulated activity accounting for minor activities that are an outgrowth of their regulated activities. Incidental activity accounting has not been permitted for an activity that is a separate line of business. A separate line of business must be accounted for as a nonregulated activity regardless of its size. The one-percent ceiling recognizes that an activity that begins as an incidental activity may grow into a separate line of business that requires accounting as a nonregulated activity. For example, one percent of Verizon’s total revenues exceeds \$400 million. If Verizon had an incidental activity with revenue greater than that, it would raise a question of whether it should be accounted for as a separate line of business. Moreover, if the one-percent limit is reached and a carrier has several incidental activities, it would only be necessary to remove from incidental activity accounting the activity or activities that would drop the total incidental activities to less than one percent.

f. Allocation of costs at Class B level

111. Section 64.903 of the Commission’s rules requires incumbent LECs with annual operating revenues from regulated telecommunications operations equal to or above a designated indexed revenue threshold,²¹⁵ to file cost allocation manuals annually setting forth the procedures that they use to allocate costs between regulated and nonregulated services.²¹⁶ In the *Notice*, we

²¹¹ See 47 C.F.R. § 32.4999(1); *Joint Cost Order*, 2 FCC Rcd at 1308, ¶ 78. For example, in its CAM filed on December 31, 1993, Citizens Utilities Company listed six activities that it treated as incidental: land and building space rental, pole contact and conduit space rental, incidental custom work, operator services not covered by tariff, customer list sales for equal access, and scrap material. See Citizens Utilities Company Permanent Cost Allocation Manual for the Separations of Regulated and Nonregulated Costs, AAD 94-6, *Memorandum Opinion and Order*, 10 FCC Rcd 16, 17, ¶ 9 (1994).

²¹² 47 C.F.R. § 64.903(a).

²¹³ GSA Comments at 7 & Reply Comments at 12-13. Sprint, Verizon, and USTA also support the proposal. See Sprint Comments at 16; Verizon Comments at 10; USTA Comments at 19-20.

²¹⁴ See Sprint Comments at 16.

²¹⁵ See “Annual Adjustment of Revenue Threshold,” *Public Notice*, DA 01-903 (rel. Apr. 11, 2001) (adjusting annual indexed revenue threshold to \$117 million).

²¹⁶ 47 C.F.R. § 64.903.

sought comment on USTA's proposal that the Commission allow all carriers the option to allocate Part 64 costs at a Class B level.²¹⁷

112. We decline to adopt USTA's proposal to allow all carriers to allocate all part 64 costs at the Class B level. We conclude that it is necessary to continue to require Class A carriers to allocate costs at the Class A level for the limited number of Class A accounts needed for the administration of the universal service high-cost support mechanism as set forth in Appendix E.²¹⁸ As discussed above, the Commission uses Class A accounting information to develop certain input values used in the universal service model and, therefore, we retain certain Class A accounts relating to network plant and related asset and expense accounts. Universal service support for non-rural carriers is based on the forward-looking cost of providing the supported services. Input values are derived using a carrier's regulated costs. For example, a Class A carrier that uses fifty percent of its fiber facilities and eighty percent of its copper facilities to provide regulated services currently reports the allocation associated with each type of plant. Under USTA's proposal, however, carriers' would merely report an aggregate allocation amount for all outside plant in a single account, which would cause distortions in the model's outside plant cost estimates.

g. Section 32.16 requirement for implementing new accounting standards

113. In the *Notice*, the Commission sought comment on USTA's proposal to eliminate the section 32.16 requirement for notification and approval to implement new accounting standards prescribed by the Financial Accounting Standards Board (FASB). Section 32.16 of the Commission's rules requires carriers to revise their records and accounts to reflect new accounting standards prescribed by FASB. This section provides that Commission approval of a change in an accounting standard shall automatically take effect 90 days after a carrier notifies the Commission of its intention to follow a new standard and files a revenue requirement study for the current year analyzing the effects of the accounting standards changes.²¹⁹ USTA argues that incumbent LECs should be permitted to simply adopt new FASB standards, without Commission review and without performing any revenue requirement studies.²²⁰

114. We are not persuaded that we should eliminate our ability to determine whether it is appropriate for carriers to implement accounting changes. Accounting standard changes often raise questions regarding exogenous treatment under price cap rules and that when they do, cost data must be available to resolve such issues.²²¹ Several commenters disagree with USTA's position, observing that mere compliance with GAAP does not ensure compliance with the

²¹⁷ See *Notice* at ¶ 43; USTA Letter at Attachment A.

²¹⁸ See Appendix E.

²¹⁹ In the *Accounting Reductions Report and Order*, the Commission liberalized this rule by requiring a revenue study only for the current year, rather than for three years into the future. In that proceeding, the Commission declined to adopt the suggestion that price cap incumbent LECs should be allowed to adopt new standards without notification. See *Accounting Reductions Report and Order*, 14 FCC Rcd at 11413, ¶ 35.

²²⁰ USTA Comments at 14.

²²¹ The Commission's exogenous cost rules allow carriers under price caps to increase their interstate rates to reflect cost increases caused by accounting changes.

Commission's rules.²²² Commenters argue, and we agree, that the prior review period permits the Commission to ensure uniformity in LEC accounting practices and allows the Commission to assess the implications of GAAP changes for LEC revenue requirements.²²³

115. We agree with the RUS that GAAP standards frequently allow several options or alternatives to implement accounting changes.²²⁴ We believe that the 90-day period is sufficient for the Commission's accounting staff to review GAAP changes to determine what guidance should be given to carriers. Sometimes this guidance can be done easily in the form of an RAO letter.²²⁵ At other times, rulemakings are necessary to implement accounting changes.²²⁶ It is, however, important for the Commission's staff to know how those changes are being implemented.

116. For these reasons, we retain the requirement for carriers to notify the Commission of their intentions to adopt a FASB change and how the carrier intends to implement this change. We eliminate, however, the requirement to provide a revenue requirement study. We agree with USTA that this requirement is burdensome and that there are alternative methods for assessing the revenue effects of these changes.

3. Current Rules Maintained

a. Charges to plant accounts

117. Section 32.2003(b) is an exception to the general rule that construction costs are recorded in Construction Work-in-Progress accounts until the construction project is completed. It allows carriers to charge directly to the appropriate plant accounts the cost of any construction project that is estimated to be completed and ready for service within two months from the date on which the project was begun.²²⁷ In addition, this section allows carriers to charge directly to the plant accounts the cost of any construction project for which the gross additions to the plant are estimated to amount to less than \$100,000. The purpose of this exception is to allow carriers to record short-term and small-cost construction projects directly to the plant accounts without having to first record these costs in the Construction Work-in-Progress accounts. This exception is acceptable for Commission purposes because it has no material affect on carrier cost or rates, and it is acceptable under GAAP because GAAP's definition of materiality is more lenient than the Commission's.

118. The *Notice* sought comments on USTA's proposal that carriers should be permitted to determine materiality for plant work-in-progress accounting.²²⁸ In particular, USTA

²²² See, e.g., AT&T Comments at 4-5 & Reply Comments at 11; WorldCom Comments at 4-5; Sprint Comments at 13-14; RUS Comments at 3; GSA Reply Comments at 10-11.

²²³ See, e.g., WorldCom Comments at 4; Wisconsin Comments at 9.

²²⁴ RUS Comments at 3.

²²⁵ See, e.g., Responsible Accounting Officer Letter 31, Cost Allocation Manual Audit Requirements for Large Incumbent Local Exchange Carriers, DA 00-2385, (rel. Dec. 21, 2000).

²²⁶ See, e.g., *Accounting Reductions Report and Order*, 14 FCC Rcd at 11416-420, ¶¶ 42-51 (adopting GAAP with respect to accounting for computer software costs).

²²⁷ 47 C.F.R. § 32.2003(b).

²²⁸ *Notice* at ¶ 24. See also USTA Petition, Attachment at 6.

sought additional flexibility to record construction projects in the relevant account rather than a work-in-progress account.

119. We decline to accept USTA's proposal because allowing carriers to set their own materiality levels for deciding when construction costs and assets should be capitalized would give carriers an incentive to capitalize large dollar amounts of uncompleted construction. Our current rules ensure that carriers have an opportunity to earn the authorized rate of return on the interstate portion of all investment they make in the telephone network, while reducing the amount recovered from ratepayers for assets under construction during the period in which they are under construction.²²⁹ The revenue requirement offset method effectively limits the amount that current ratepayers pay for assets prior to their placement into service.²³⁰ Moreover, allowing carriers to establish their own materiality level for capitalizing plant work in progress accounting, as proposed, would eliminate the uniformity and consistency in reporting that Part 32 strives to achieve. Consistency and uniformity in carriers' books of accounts should be maintained so that we can readily compare their regulatory operating results. We, therefore, decline to adopt USTA's proposal.

b. Continuing property records

120. In the *Notice*, the Commission sought comment on USTA's proposal to eliminate detailed requirements for property record additions, retirements, and recordkeeping. The property records consist of continuing property records (CPR) and all supplemental records necessary to provide the property record details required by the Commission.²³¹ Many commenters contend that the property records are necessary to ensure that the network plant accounts accurately reflect those assets in service.²³² We concur and decline to adopt USTA's proposal.

121. CPR records provide data for cost allocations studies used in state regulatory proceedings. In addition, these records provide material-only costs for accounting for transfers, reallocations, and adjustments of plant.²³³ State regulators rely heavily on the CPR records in their

²²⁹ See Utah Comments at 2.

²³⁰ In 1995, the Commission adopted the revenue requirement offset method for construction projects to allow carriers to earn the authorized rate of return on all construction projects and to conform accounting for Allowance for Funds Used During Construction (AFUDC) to GAAP. Under the revenue requirement offset method, Telephone Plant Under Construction (TPUC) is included in the rate base during the construction period and the AFUDC is recognized as part of that cost of construction. To prevent double recovery, the current year's AFUDC is treated as a revenue amount for ratemaking purposes. For cost of service companies, this credit reduces the carrier's revenue requirement. See *Accounting and Ratemaking Treatment for the Allowance for Funds Used During Construction (AFUDC)*, CC Docket No. 93-50, *Report and Order*, 10 FCC Rcd 2211, 2213, ¶ 10 (1995).

²³¹ 47 C.F.R. § 32.2000(e)(3).

²³² See, e.g., Florida Comments at 7; Idaho Comments at 5; Maryland Comments at 4; NARUC Comments at 6; Oregon Comments at 4 (if proposal is adopted, OPUC will require carriers to maintain the information); ALTS Reply Comments at 12; AT&T Reply Comments at 10-11; XO Communications Reply Comments at 14-15; NASUCA Oct. 4, 2001 *ex parte* at 4. NASUCA observes that our CPR rule is consistent with the Foreign Corrupt Practices Act of 1977 that applies to any domestic firm engaged in business with a foreign entity. *Id.*

²³³ See, e.g., Florida Comments at 7; Maryland Comments at 4; NARUC Comments at 6; Idaho Comments at 5.

local ratemaking processes.²³⁴ The attached Further Notice of Proposed Rulemaking seeks comment on whether there are alternative avenues for states to gather whatever information pertaining to property records they need for state regulatory proceedings, and whether there are any federal or state regulatory needs served by our CPR rules that cannot be met through alternative mechanisms. The Further Notice also seeks comment on eliminating the CPR rules in three years.

c. Cost allocation forecasts

122. The Commission's cost allocation rules require that costs be allocated between regulated and nonregulated activities. Carriers are required to assign costs directly to regulated and nonregulated activities, whenever possible. Costs that cannot be directly assigned are known as "shared" or "common costs" and are allocated between regulated and nonregulated use based on a hierarchy of principles. Section 64.901(b)(4) of the Commission's rules requires that carriers allocate the costs of central office equipment and outside plant investment between regulated and nonregulated activities based on a forecast of the relative regulated and nonregulated usage during a three calendar year period beginning with the current calendar year.²³⁵ The policy consideration underlying this rule recognizes that investment decisions are made in anticipation of future use. In the *Notice*, the Commission sought comment on USTA's proposal to eliminate the forecast use rule.²³⁶

123. USTA argues that LECs should be allowed to allocate costs of common central office and outside plant investment on the basis of actual usage.²³⁷ USTA states that actual usage cost allocations increase accuracy and avoid costly burdens.²³⁸ USTA also argues that forecasting nonregulated usage of shared central office and outside plant is obsolete with the introduction of interconnection agreements.²³⁹ The states and other commenters argue that USTA's proposal to eliminate the forecast use rule for allocating joint investments between the carrier's regulated operations and nonregulated "start up" operations would result in the over-allocation of nonregulated costs to the LECs' regulated activities.²⁴⁰ GSA agrees and further states that unless a forward-looking allocation procedure is maintained, plant additions to provide nonregulated services will be consistently allocated incorrectly.²⁴¹

124. We decline to adopt USTA's proposal to eliminate the forecast use rule for allocating joint investments between the carrier's regulated and nonregulated operations. We conclude that the forecast use rule remains a valuable tool in allocating the costs of shared

²³⁴ See, e.g., Florida Comments at 7; NARUC Comments at 6; Idaho Comments at 5; California Reply Comments at 2-3; ALTS Reply Comments at 12; AT&T Reply Comments at 11.

²³⁵ 47 C.F.R. § 64.901(b)(4).

²³⁶ *Notice* at ¶ 45. USTA contends that this rule is burdensome, but has not quantified the burden.

²³⁷ USTA Comments at 21.

²³⁸ *Id.* at 22.

²³⁹ USTA Sept. 28, 2001 *ex parte* at 8.

²⁴⁰ See, e.g., Florida Comments at 8; Utah Comments at 3-4; Maryland Comments at 5; North Carolina Public Staff Comments at 4; NARUC Comments at 7; Ohio CC and NASUCA Joint Comments at 7; Idaho Comments at 5; GSA Comments at 9 & Reply Comments at 14; NASUCA Oct. 4, 2001 *ex parte* at 2.

²⁴¹ GSA Comments at 9.

facilities fairly. Because investment in central office equipment and outside plant is made in anticipation of future usage, the allocation of such investment between regulated and nonregulated activities should be based on that anticipated usage.²⁴² If allocation were based on current usage instead, an underallocation of central office equipment and outside plant to nonregulated activities could result whenever the usage associated with those activities increases over a period of several years.²⁴³ Moreover, to the extent there is an overallocation of costs to the regulated books, that overallocation will flow through to the states through separations. As a consequence, ratepayers would be bearing a portion of the costs of deploying networks used to provide nonregulated activities in the future. We therefore find that the three-year peak forecast method is a reasonable approach to allocating joint and common costs. As a result, we will continue to require that carriers allocate these costs based on forecasted usage.

125. Based on the record before us, it does not appear that it will be unduly burdensome to maintain the existing forecast rule. The current rules do not require a forecast of usage for all facilities; rather, only investment in facilities that are shared between regulated and nonregulated uses are subject to the forecast rule. The vast majority of central office and cable investment already is directly assigned (and therefore not subject to the forecast rule).²⁴⁴ Moreover, other rule changes that we adopt today may affect what investment is subject to the forecast rule. As set forth above,²⁴⁵ we are amending our cost allocation rules to provide that, to the extent a carrier provides a non-tariffed service to its nonregulated operations, that service will be recorded to nonregulated operations at the price set for that service or facility as set forth in an interconnection agreement approved by a state commission pursuant to section 252(e). As a result of this modification to our cost allocation rules, carriers may be able to directly assign costs to nonregulated activities in more instances, so that fewer costs will remain in the pool of common costs that must be allocated based on a three-year forecast of anticipated usage.

4. Classification of Companies

126. As we have discussed above, rule 32.11 divides companies into Class A and Class B for accounting purposes. This rule does not state that our accounting rules apply only to incumbent LECs. Rather, the rule merely speaks in terms of “companies.” Currently, we apply these requirements to incumbent LECs only, because they are the dominant carriers in their markets.²⁴⁶ In the *Notice*, the Commission sought comment on whether section 32.11 should be amended so that its requirements explicitly pertain only to incumbent LECs, as defined in section

²⁴² See NARUC Aug. 17, 2001 *ex parte* at 9.

²⁴³ For example, if an incumbent LEC deploys fiber and coaxial cable transmission facilities and equipment; signal generation, reception, and control equipment; broadband switching equipment; and operations support systems in anticipation of providing cable service in the future, but allocates costs based only on current usage, the costs of that equipment will be disproportionately allocated to the regulated local exchange service, rather than the nonregulated activity. See NARUC Sept. 6, 2001 *ex parte* at Appendix, p.6.

²⁴⁴ Verizon and Qwest report direct assignment of central office and outside plant of 97 percent and 95 percent, respectively; therefore, only 3 percent and 5 percent of their investment is subject to the forecast rule. USTA March 29, 2001 *ex parte*. Our ARMIS data show that both Verizon and Qwest reported direct assignment of central office and outside plant of 95 percent for year 2000.

²⁴⁵ See section III.C.1.(c).

²⁴⁶ In Implementation of the Telecommunications Act of 1996, CC Docket No. 96-193, *Report and Order*, 12 FCC Rcd 8071, 8095, ¶ 53 (1997), we specifically excluded non-incumbent LECs from CAM and ARMIS filing requirements.

251(h) of the Communications Act, and any other companies that the Commission designates by order.²⁴⁷ None of the commenters opposed the proposal to revise section 32.11 to apply to incumbent LECs.²⁴⁸

127. We adopt the proposal in the *Notice* to revise section 32.11 of the Commission's rules to specifically apply to incumbent LECs and any other companies that the Commission designates by order. Section 32.11 was adopted at a time when there were no competitive local exchange carriers; the language in the rule presumably was intended to refer to the carriers that existed at the time, which were the incumbent LECs. Now that new carriers have entered the local exchange market, we will conform our rules to today's marketplace and replace the term "companies" with "incumbent LEC."

D. ARMIS Reporting Requirements

1. Background

128. ARMIS is an automated reporting system developed by the Commission to collect financial, operating, service quality, and network infrastructure information that carriers are required to collect under Commission rules. As previously noted, ARMIS reports 43-01, 43-02, 43-03, and 43-04 contain financial information of carriers with annual operating revenues that are equal to or above the indexed revenue threshold, currently \$117 million.²⁴⁹ In particular, ARMIS 43-01 summarizes the carriers' accounting and cost allocation data prescribed in Parts 32, 36, 64, 65, and 69 of the Commission's rules, ARMIS 43-02 collects basic accounting information, ARMIS 43-03 collects information on how costs are allocated between regulated and nonregulated activities, and ARMIS 43-04 collects information on how costs are separated between the federal and state jurisdictions. Supporting data for the ARMIS 43-03 Report currently are collected in two reports: Form 495A (Forecast of Investment Usage Report) and Form 495B (Actual Usage of Investment Report). The remaining four ARMIS reports contain non-financial information. Of the four, two are at issue in this proceeding: ARMIS Report 43-07 (Infrastructure Report) and ARMIS Report 43-08 (Operating Data Report), which collect information about the physical and operating characteristics of the incumbent local exchange carriers.²⁵⁰

129. ARMIS provides policymakers with one mechanism for monitoring activities associated with the provision of telecommunications services and the development of the

²⁴⁷ *Notice* at ¶ 44.

²⁴⁸ See, e.g., ALTS Reply Comments at 5; XO Communications Reply Comments at 16-17 (arguing that CLECs enter the local exchange and exchange access markets in competition with other providers and without control of bottleneck facilities).

²⁴⁹ The 30 large incumbent LECs that file financial reports are Verizon (19 operating companies), SBC (9 operating companies), BellSouth (1 operating company), and Qwest (1 operating company).

²⁵⁰ The ARMIS Report 43-07 is required for the 30 mandatory price cap incumbent LECs: SBC (9 operating companies), Verizon (19 operating companies), Qwest (1 operating company), and BellSouth (1 operating company). The ARMIS Report 43-08 is required by the same 52 incumbent LECs that file the financial reports: SBC (9 operating companies), Verizon (19 operating companies), Qwest (1 operating company), BellSouth (1 operating company), Cincinnati Bell (1 operating company), C-TEC (1 operating company), Sprint (13 operating companies), ALLTEL (5 operating companies), and Citizens Communications (2 operating companies). Roseville and CenturyTel have also passed the indexed revenue threshold and would be required to file ARMIS 43-08 this year, under the current rules.

telecommunications infrastructure. Moreover, it allows regulators to perform these functions without having to rely on ad hoc information requests. Government agencies, interexchange carriers, CLECs, state regulators,²⁵¹ and other parties currently rely on ARMIS data.²⁵²

130. In the *Phase 1 Report and Order*, the Commission reduced the reporting requirements of the ARMIS 43-02 USOA Report.²⁵³ Specifically, the Commission revised Table C-3 of ARMIS 43-02 Report to include carrier's operating states; eliminated Tables C-1, C-2, and C-4 from the ARMIS 43-02 Report; eliminated nine of twelve reporting items from Table C-5 of ARMIS 43-02 Report and established new threshold levels for two reporting items; eliminated seven of fifteen reporting items from the Table B Series of ARMIS 43-02; and eliminated three of seven reporting items from the Table I Series of ARMIS 43-02, established new threshold reporting levels for items reported in Tables I-6 and I-7, and eliminated the Academia reporting requirements.

131. In the *Notice*, the Commission sought comment on eliminating several tables and line items from certain ARMIS Reports.²⁵⁴ The Commission also sought comment on USTA's proposal to eliminate most of ARMIS reporting.²⁵⁵ In particular, USTA proposed to combine the ARMIS 43-01, 43-02, 43-03, and 43-04 into one report, and have carriers report only at the aggregated operating company level.

132. USTA contends that consolidating the ARMIS reports would substantially reduce the volume and complexity of the current ARMIS financial reports and significantly minimize the reporting burden.²⁵⁶ BellSouth supports USTA's proposal and contends that the Commission can monitor accounting costs through the revised report proposed by USTA, and that the Commission should eliminate ARMIS 43-07 and 43-08 because monitoring the network infrastructure is no longer needed in today's competitive environment.²⁵⁷ According to BellSouth, if incumbent LECs do not provide the services demanded by their customers, those customers will "vote with their

²⁵¹ For a list of state proceedings in which ARMIS data were used from January 1997 to July 1998, see *ARMIS Reductions Report and Order*, 14 FCC Rcd at 11456-457, ¶ 24 & n. 56.

²⁵² See, e.g., Florida Comments at 11 (stating that "the only publicly available source of accounting data and information is that reported in ARMIS"); Idaho Comments at 7; Maryland Comments at 6; NARUC Comments at 4, 9 & Reply Comments at 7; North Carolina Public Staff Comments at 5; Oregon Comments at 6; Utah Comments at 4; Wisconsin Comments at 16; Wyoming Comments at 3-4; ALTS Reply Comments at 10; AT&T Comments at 4, 8 & Reply Comments at 13; GSA Comments at 10 & Reply Comments at 16; RUS Comments at 2; WorldCom Comments at 8 & Reply Comments at 7-8; Alaska Reply Comments at 4; California Reply Comments at 3; NCTA Reply Comments at 5-7; Ohio CC and NASUCA Reply Comments at 9.

²⁵³ *Phase 1 Report and Order* at ¶¶ 32-57.

²⁵⁴ ARMIS Reports 43-05 and 43-06 are under examination in a separate proceeding. See 2000 Biennial Regulatory Review – Telecommunications Service Quality Reporting Requirements, CC Docket No. 00-229, *Notice of Proposed Rulemaking*, 15 FCC Rcd 22113 (2000). Through ARMIS Report 43-05, the Commission, state commissions, and the public monitor trends in the quality of service provided by price cap LECs. The ARMIS Report 43-06 contains the results of customer satisfaction surveys conducted by the price cap LECs.

²⁵⁵ See *Notice* at Appendix 6.

²⁵⁶ USTA Comments at 23.

²⁵⁷ BellSouth Comments at 6.

feet” and obtain services from a competitor.²⁵⁸ Verizon also argues that the Commission should adopt USTA’s proposal and contends that ARMIS is an overly burdensome relic of regulation that is contrary to the de-regulatory goals of the 1996 Act.²⁵⁹

133. The states and other commenters oppose USTA’s proposal, contending that the ARMIS reports are important to understand the incumbent LECs’ local exchange and exchange access operations, both financially and technically.²⁶⁰ Commenters observe that ARMIS data are collected in a uniform and standard format so that all states and the public have efficient and reliable access to data they use currently to establish UNE prices, interconnection rates, and universal service support.²⁶¹

134. Although we recognize that there could be alternative federal or state mechanisms that would adequately address the most important of the Commission’s regulatory activities, no such mechanisms are presently in place. In the absence of alternative federal or state mechanism(s),²⁶² USTA’s proposal to eliminate state-by-state ARMIS information would destroy the utility of ARMIS to states that wish to compare cost information of the incumbent LEC in their state to that incumbent LEC’s costs in other states.²⁶³ For these reasons, we do not adopt USTA’s proposal at this time. We do, however, streamline several ARMIS reports, as described below. We direct the Common Carrier Bureau to implement programming changes to effectuate the modifications adopted below.

2. ARMIS Report 43-01 (Annual Summary Report)

135. The ARMIS 43-01 Annual Summary Report summarizes the carriers’ accounting and cost allocation data prescribed in Parts 32, 36, 64, 65, and 69 of the Commission’s rules.²⁶⁴ It consists of Table I, a highly aggregated and comprehensive view of the carriers’ financial and cost allocation data and Table II, a summary of demand in minutes of use and billable access

²⁵⁸ *Id.*

²⁵⁹ Verizon Comments at 11.

²⁶⁰ *See, e.g.*, Florida Comments at 10-11; Idaho Comments at 7; Maryland Comments at 5-6; ALTS Reply Comments at 4; AT&T Reply Comments at 12-13; California Reply Comments at 3-4 ; AT&T Aug. 29, 2001 *ex parte* at 2; NARUC Sept. 6, 2001 *ex parte* at App. A, p.7; North Carolina Sept. 4, 2001 *ex parte* at 4; Utah Aug. 31, 2001 *ex parte* at Appendix, p.3; Maryland Sept. 7, 2001 *ex parte* at Appendix; Michigan Oct. 3, 2001 *ex parte* at 1-2.

²⁶¹ *See, e.g.*, Florida Comments at 11; Idaho Comments at 7; Maryland Comments at 6; Alaska Reply Comments at 4; California Reply Comments at 3-4; Ohio CC and NASUCA Reply Comments at 9; NASUCA Oct. 4, 2001 *ex parte* at 2. NASUCA observes that the overwhelming majority of all UNE inputs begin with Class A accounts which are then forecasted into a future time period that is used to determine forward looking costs. *Id.* Michigan observes that ARMIS data were used to defend its decisions on a claim that the Michigan Telecommunications Act is confiscatory before the US District Court for the Eastern District of Michigan in Civil Action No. 00-73207. Michigan Oct. 3, 2001 *ex parte* at 2.

²⁶² *See* Further Notice of Proposed Rulemaking.

²⁶³ *See, e.g.*, Florida Comments at 11; Idaho Comments at 7; NARUC Comments at 11; Maryland Comments at 6; North Carolina Public Staff Comments at 5; Utah Comments at 4; WorldCom Reply Comments at 6; NARUC Sept. 6, 2001 *ex parte* at App. A, p.7; North Carolina Sept. 4, 2001 *ex parte* at 4; New Mexico Aug. 30, 2001 *ex parte* at Appendix, p.2; Utah Aug. 31, 2001 *ex parte* at Appendix, p.3; Michigan Oct. 3, 2001 *ex parte* at 2.

²⁶⁴ 47 C.F.R. Parts 32, 36, 64, 65, and 69.

lines. All incumbent LECs with annual operating revenues for the preceding year equal to or above the indexed revenue threshold file the 43-01 Report²⁶⁵ on a study area basis.²⁶⁶

136. Table I summarizes the carrier's costs and revenues as reported in the Part 32 accounts (43-02 USOA Report), and shows the allocation of costs between regulated and nonregulated activities (43-03 Joint Cost Report), the separation of regulated costs between state and interstate jurisdictions, and the interstate costs used to support access elements (43-04 Separations and Access Report). In the *Notice*, the Commission proposed eliminating the requirement to file Table I for all carriers filing at the Class A level. The Commission proposed to generate this table from information provided in other financial ARMIS reports and to post the report electronically with the carrier's annual ARMIS filing.

137. The Commission also proposed eliminating the requirement to file Table II. The Commission proposed to eliminate the reporting of all Common Line Demand Minutes of Use (*i.e.*, premium and non-premium) and retain the sections for Switched Traffic Sensitive Demand Minutes of Use and Common Line Demand Billable Access Lines, which would be added to the ARMIS 43-04 in conjunction with row 9010 (Total Billable Access Lines).

138. In the next section of this Report and Order, we adopt streamlined ARMIS reporting for mid-sized incumbent LECs, and no longer require them to file ARMIS 43-02, 43-03, and 43-04 Reports. If we were to eliminate Tables I and II from ARMIS 43-01, we would no longer have certain information from mid-sized carriers that we currently need for various regulatory purposes. Because we cannot generate the information for mid-sized incumbent LECs in any other manner, we do not adopt our proposal to eliminate filing Tables I and II.²⁶⁷ Therefore, ARMIS 43-01 will continue to include Tables I and II. With respect to Table II, we adopt our proposal to eliminate the Common Line Minutes of Use (rows 2010, 2020, 2030, and 2040). The remaining eight rows (2050, 2060, 2090, 2100, 2110, 2120, 2140, and 2150) will remain in Table II. Rows 2100, Residence Lifeline Access Lines and 2110, Residence Non-Lifeline Access Lines are needed by the Commission to track support amounts USAC pays to qualifying companies. In addition, all of these eight rows are needed by the Commission to verify data received in tariff filings by the CALLS companies.

3. ARMIS Report 43-02 (USOA Report)

139. The ARMIS 43-02 Report provides the annual operating results of the carriers' telecommunications operations for every account in Part 32. All incumbent LECs with annual operating revenues for the preceding year equal to or above the indexed revenue threshold file the 43-02 Report on an operating company basis. The 43-02 Report collects information about the carrier's ownership (Table C Series), balance sheet (Table B Series), and income statement accounts (Table I Series). Information collected in Tables B and I provides data about the carrier's financial accounts, including overall investment and expense levels, affiliate

²⁶⁵ Mid-sized incumbent LECs currently may file ARMIS reports at the Class B level, starting with the 1999 reporting year. *See ARMIS Reductions Report and Order*, 14 FCC Rcd at 11449, ¶ 11.

²⁶⁶ A study area is a geographic segment of an incumbent LEC's telephone operations. Generally, a study area corresponds to the LEC's service territory within a state.

²⁶⁷ USTA and Verizon contend that the proposal to generate Table I and eliminate Table II is hardly worth the effort and would provide no administrative relief. *See USTA Comments at 23; Verizon Comments at 11.*

transactions, property valuations, and depreciation rates. In the *Phase 1 Report and Order*, the Commission significantly reduced the reporting requirements for Tables C, B, and I.

140. In the *Notice*, the Commission proposed to eliminate the filing of ARMIS 43-02, Table I-1 (Income Statement Accounts) for all carriers filing at the Class A level. Table I-1 collects data on the carrier's revenues, expenses, and net income for the reporting period. The Commission proposed to generate this table from information provided in the other financial ARMIS reports. In order to implement the proposal to eliminate the requirement to file ARMIS 43-02, Table I-1 for the largest incumbent LECs, the Commission proposed to include in ARMIS 43-03: the collection of data for Account 1402 (Investment in Non-Affiliate Companies) and the account series (7410 through 7450) for Account 7400 (Non-operating Taxes).²⁶⁸ In addition, the Commission proposed the addition of 4 rows for collecting information on the number of employees (rows 830, 840, 850, and 860).²⁶⁹ These data are currently required in ARMIS 43-02, Table I-1, but not in any other ARMIS report. The Commission anticipated that this proposal would provide relief to carriers from reporting information that can otherwise be derived from other ARMIS reports. USTA and Verizon, however, contend that adopting the proposal would be unnecessarily complicated and not provide any administrative relief.²⁷⁰ Because it would be administratively difficult for us to effectuate this proposal at this time, we do not adopt the proposal in the *Notice* to have the Commission generate Table I-1 of the ARMIS 43-02 Report.

141. In the *Notice*, the Commission also proposed to add rows to ARMIS 43-02 to allow for the reporting of metallic and non-metallic cable investment and expense information.²⁷¹ Carriers already maintain this information in subsidiary record categories for each of the cable investment and expense accounts. The subsidiary record categories are not reported to the Commission, but the data are used for various purposes, such as inputs to the Commission's universal service high cost model for non-rural carriers as well as other forward-looking cost studies.²⁷² Given our desire to explore whether there are alternative sources for this information other than annual ARMIS filings,²⁷³ we do not think it makes sense at this time to add these rows to ARMIS. For these reasons, we do not adopt the proposal in the *Notice* and add rows to ARMIS Report 43-02, tables for the reporting of metallic and non-metallic cable investment and expense.

4. ARMIS Report 43-03 (Joint Cost Report)

142. The ARMIS 43-03 Report contains the allocation of the carriers' revenues, expenses, and investments between regulated and nonregulated activities. All incumbent LECs with annual operating revenues for the preceding year equal to or above the indexed revenue threshold file the 43-03 Report on a study area basis. In the *Notice*, the Commission proposed to reduce the number of columns currently reported on the 43-03 Report by eliminating the distinction between "SNFA and Intra-co. Adjustments" and "Other Adjustments" and combining

²⁶⁸ *Notice* at ¶ 60.

²⁶⁹ *Id.*

²⁷⁰ USTA Comments at 24; Verizon Comments at 11. WorldCom does not support the elimination of Table I-1. WorldCom Comments at 5-6.

²⁷¹ Several commenters support this proposal. *See, e.g.*, WorldCom Comments at 6 & Reply Comments at 7; GSA Comments at 11 & Reply Comments at note 53; AT&T Reply Comments at 14.

²⁷² This information has been provided to the Commission pursuant to ad hoc data requests.

²⁷³ *See* Further Notice of Proposed Rulemaking at paragraph 208.

these columns into one column entitled “Adjustments.”²⁷⁴ USTA and Verizon agree with this proposal.²⁷⁵ Verizon observes that approximately 0.2 percent of all adjustments appeared in the “SNFA and Intra-co. Adjustments” column.²⁷⁶ We find that there does not appear to be a significant regulatory need to retain the “SNFA and Intra-co. Adjustments” column. We therefore are adopting the proposal to combine the two columns into one for the 43-03 Report. We also make a conforming change to the 43-01 Report.

5. ARMIS Report 43-04 (Separations and Access Report)

143. We revise the ARMIS 43-04 (Separations and Access) Report²⁷⁷ to reduce the data required to be reported during the interim freeze of certain jurisdictional cost categories and allocation factors prescribed in Part 36²⁷⁸ of the Commission’s rules.²⁷⁹ Carriers will file this revised ARMIS 43-04 Report on April 1, 2002, and on an annual basis thereafter for the duration of the freeze.

144. Part 36 of the Commission’s rules provides procedures for incumbent LECs to separate their regulated costs between the intrastate and interstate jurisdictions. In 1997, the Commission initiated a comprehensive reform of the jurisdictional separations procedures to ensure that they met the objectives of the 1996 Act, and to consider reforms needed due to changes in the law, technology, and the market structure of the telecommunications industry.²⁸⁰ In May 2001, the Commission adopted the recommendation of the Federal-State Joint Board to impose an interim freeze of certain jurisdictional cost categories and allocation factors for price cap carriers and the allocation factors only for rate-of-return carriers.²⁸¹ The freeze will be in effect for five years (from July 1, 2001 to June 30, 2006) or until the Commission has completed comprehensive reform of the rules for jurisdictional separations, whichever comes first.

145. In the *Separations Freeze Order*, the Commission concluded that incumbent LECs should report results of jurisdictional separations in a streamlined ARMIS 43-04 Report.²⁸² Pursuant to instructions of the Commission, the Common Carrier Bureau released a Public Notice on June 22, 2001, seeking comment on a proposed streamlined ARMIS 43-04 Report.²⁸³

²⁷⁴ Notice at ¶ 59.

²⁷⁵ USTA Comments at 24; Verizon Comments at 12.

²⁷⁶ Verizon Comments at 12.

²⁷⁷ FCC Report 43-04 Table I-Separations and Access Table is attached as Appendix G.

²⁷⁸ 47 C.F.R. Part 36.

²⁷⁹ On May 22, 2001, the Commission adopted the recommendation of the Federal-State Joint Board to impose an interim freeze. See Jurisdictional Separations Reform and Referral to the Federal-State Joint Board, CC Docket No. 80-286, *Report and Order*, FCC 01-162 (rel. May 22, 2001) (*Separations Freeze Order*).

²⁸⁰ See Jurisdictional Separations Reform and Referral to the Federal-State Joint Board, CC Docket No. 80-286, *Notice of Proposed Rulemaking*, 12 FCC Rcd 22120 (1997).

²⁸¹ See *Separations Freeze Order* at ¶ 2.

²⁸² *Id.* at ¶¶ 45-46.

²⁸³ See “Common Carrier Bureau Seeks Comment on Proposed Streamlined ARMIS 43-04 (Jurisdictional Separations) Report,” CC Docket No. 80-286, *Public Notice*, DA 01-1496 (rel. June 22, 2001) (*ARMIS 43-04 Public Notice*). We received five comments and four reply comments. ALLTEL

146. Generally, commenters were supportive of the proposed streamlined report. They did, however, raise several specific issues discussed below.

147. Currently, the report contains cost and revenue data as well as allocation factors. The report is organized so that the cost and revenue data are followed by the corresponding allocation factors. The proposed, simplified report eliminates many of the allocation factor rows, thereby making it less clear which factors apply to which costs and revenues. SBC suggests placing the cost and revenue data in one table and the allocation factors in a second table. SBC and GSA argue that this would improve the report by making it clearer which allocation factors apply to which cost and revenue data.²⁸⁴ We agree with the parties that the proposed, simplified report would be improved if the links between the cost, revenues, and allocation factors were clearer. We find, however, that SBC's suggestion would lead to a lengthier report, since many of the cost and revenue rows are also allocation factors and would therefore have to appear in both tables. We find that the links can be improved without lengthening the report by continuing the use of only one table, and revising the ARMIS software so that, when an ARMIS user selects a specific cost or revenue row, the program will show the row number of the corresponding allocation factors. Furthermore, this can be accomplished without requiring the ARMIS filers to segregate their cost, revenue, or allocation factors or by requiring that they submit certain of the data more than once. We therefore direct the Bureau to make the necessary ARMIS program changes.

148. AT&T proposes that we retain the separate identification of traffic sensitive services as local switching and local transport.²⁸⁵ AT&T contends that access customers will be unable to conduct proper cost analysis of traffic sensitive rates without separate local switching and local transport data.²⁸⁶ We agree with AT&T that these two categories for traffic sensitive plant and expenses should be retained. One reason for doing so is that this cost detail would be needed under a new approach to intercarrier compensation on which the Commission recently sought comment.²⁸⁷ Under this compensation proposal, carriers would use a bill and keep arrangement that requires them to recover local switching costs from their own customers. Local transport costs, however, would continue to be recovered partly through intercarrier compensation. Accordingly, this plan calls for access charges to be retained for local transport but not for local switching. The Commission's ability to monitor and evaluate local transport access rates would be greatly hindered if it could not identify and track local transport costs separately from local switching costs.

149. A second reason for retaining these two cost categories is that this cost detail might be needed in any future reform of our access charge rules. We do not anticipate implementing major changes to our access charge rules for price cap carriers for several years because the CALLS plan established interstate access rate levels for the period July 1, 2000

Communications, Inc. (ALLTEL), General Services Administration (GSA), SBC Communications, Inc. (SBC), Sprint Corporation (Sprint), and United States Telecom Association (USTA) filed initial comments. AT&T Corporation (AT&T), GSA, SBC, and USTA filed reply comments.

²⁸⁴ SBC Comments at 3; GSA Reply Comments at 6.

²⁸⁵ AT&T Reply Comments at 1-2.

²⁸⁶ *Id.* at 2.

²⁸⁷ See Developing a Unified Intercarrier Compensation Regime, CC Docket No. 01-92, *Notice of Proposed Rulemaking*, FCC 01-132 (rel. Apr. 27, 2001) (*Intercarrier Compensation NPRM*).

through June 30, 2005.²⁸⁸ As the Commission recently stated, however, one of our long-term goals is to develop a uniform regime for all forms of intercarrier compensation, including interstate access. For price cap incumbent LECs, this means that we will need to revisit access charge rules when the CALLS plan expires in four years. For all other incumbent LECs, the Commission has under consideration various issues relating to access reform and universal service.²⁸⁹ We believe it would be premature to consolidate the local switching and local transport categories before these issues are resolved.

150. We also received comment regarding removing certain rows from the proposed report. SBC suggests removing all the equal access rows and instead requiring that the data be reported in the appropriate accounts.²⁹⁰ Our separations rules require maintaining the equal access costs separate from the investment and expense accounts.²⁹¹ Several incumbent LECs still have costs in these equal access accounts. Removing these rows, as SBC proposes, would require revising our separations rules, which is outside the scope of this proceeding.

151. Sprint proposes that we delete row 1213 “% Interstate Category 3 COE-Allocation.” Sprint argues, and we agree, that this row is duplicative of row 1216 “# Dial Equipment Minutes.”²⁹² We adopt Sprint’s suggestion, and delete row 1213.

152. USTA and Sprint argue that the data reported in the “OTHER DATA” section of the ARMIS 43-04 Report should be eliminated.²⁹³ They contend that the data in this section are available from other sources or can be calculated from other available data. GSA argues for retention of this section, stating that ARMIS reports are published on a more timely basis than other sources and that ARMIS is supported by a user friendly data base program available through the Internet.²⁹⁴ We have reviewed the data reported in this section and find that it can be obtained from other sources that will adequately serve our data needs. Accordingly, we eliminate the “OTHER DATA” section of the ARMIS 43-04 report.

153. We also received suggestions to make revisions based on the Part 32 rule changes proposed in the *Notice* in CC Docket No. 00-199.²⁹⁵ GSA proposes that rows 4010, Network access service revenues-End user; 4011, Network access service revenues-Switched; 4012, Network access service revenues-Special; and 4013, Network access service revenues-State include state and interstate revenues.²⁹⁶ We agree with the GSA that the elimination of Account 5084, State access revenue, as proposed in the *June 8 Public Notice*, require such a conforming change to ARMIS 43-04 Report. Because Account 5084, State access revenue is consolidated

²⁸⁸ See *CALLS Report and Order*.

²⁸⁹ See Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers, CC Docket No. 00-256, *Notice of Proposed Rulemaking*, FCC 00-448 (rel. Jan. 5, 2001).

²⁹⁰ SBC Comments at 2.

²⁹¹ 47 C.F.R. § 36.421.

²⁹² *Id.*

²⁹³ USTA Comments at 3; Sprint Comments at 3-4.

²⁹⁴ GSA Reply Comments at 5.

²⁹⁵ Following the *Notice*, we sought further comment on Part 32 streamlining in a Public Notice. See *June 8 Public Notice*.

²⁹⁶ GSA Comments at 3-4.

with Account 5081, End-user revenue; Account 5082, Switched access revenue; and Account 5083, Special access revenue, we will need disaggregated reporting of jurisdictional revenues in ARMIS. We note however, that the changes to Part 32 adopted in the Report and Order in CC Docket 00-199 will not be in effect until the April 1, 2003 ARMIS filing. Therefore, we are not making that change to the ARMIS 43-04 Report in this Report and Order. Additional revisions to the ARMIS 43-04, to reflect the Part 32 rule changes in CC Docket No. 00-199, will be adopted in the annual ARMIS Order for the April 1, 2003 ARMIS filings.

154. We received proposals to change the descriptions of various rows and column “c.” Sprint recommends numerous changes to the rows, which we adopt, with some modifications.²⁹⁷ USTA proposes that column “c” should be labeled “non-interstate” instead of “state” to avoid confusion.²⁹⁸ We do not adopt this proposal. Jurisdictional separations is the process by which incumbent LECs apportion regulated costs between interstate and intrastate jurisdictions. Therefore, columns “c” and “d” are properly labeled “state” and “interstate.” “State” and “intrastate” are interchangeable for these purposes, particularly when we are using abbreviations throughout for labeling rows and columns. We see no point in introducing “non-interstate,” a lengthier label, to replace “state” in this instance.

155. We are also deleting rows 1523, 3251, 4065, 4110, 8012, and 8017 because they are redundant. Row 1523 is the same as row 1393; row 3251 is the same as row 2194; rows 4065, 8012, and 8017 are the same as row 2131; and row 4110 is the sum of rows 4066, 4076, 4080, and 4090, less 4100. We are adding row 3021, needed as an allocator for other rows; row 5042, needed to summarize “IOT-Other” expense; and row 5050, needed to report directly assigned “IOT-CPE” expense.

156. Finally, USTA indicates that as part of the process of identifying dial equipment minutes, as required for Part 36 separations and reported in the 43-04 Report, the carriers make special studies to calculate local call volumes that are required to be reported in the 43-08 Operating Data Report. They suggest that “as a result of the adoption of the separations freeze, these special studies will also be frozen,” and, therefore, rather than report the same information on future reports, “local call” data should be eliminated from the 43-08 Report. We disagree with this conclusion. The *Separations Freeze Order* applies only to Part 36 category relationships and jurisdictional allocation factors. The Order does not apply to the local call volumes as reported on the 43-08 Report and/or their means of development.

157. We therefore adopt the streamlined ARMIS 43-04 Table I-Separations and Access Table, attached as Appendix G. This revised ARMIS 43-04 will be filed on April 1, 2002, and on an annual basis thereafter, for the duration of the separations freeze.

6. ARMIS 43-07 (Infrastructure Report)

158. The ARMIS 43-07 Report collects data about the carrier’s switching and transmission equipment, call set up time, and cost of total plant in service. This report is prescribed for every mandatory price cap carrier.²⁹⁹ The report is filed on a study area and holding company level. The report captures trends in telephone industry infrastructure development under price cap regulation. Policymakers at the federal and state levels use this information,

²⁹⁷ Sprint Comments at 6-7. GSA supports Sprint’s proposals. GSA Reply Comments at 6.

²⁹⁸ USTA Comments at 3.

²⁹⁹ Originally, the BOCs and GTE; now SBC, Verizon, Qwest, and BellSouth.

which is critical data not available through other public sources. The ARMIS 43-07 Report is a data source for a number of Commission publications. For example, on an annual basis, the Commission publishes the *Statistics of Communications Common Carriers and Infrastructure of Local Operating Companies*. The Commission also publishes on a biannual basis, *Monitoring Reports on Universal Service*. These reports are generated from publicly available data, including data reported in carriers' annual ARMIS 43-07 submissions.

159. USTA, Verizon, and BellSouth contend that we should eliminate the 43-07 Report because it is obsolete.³⁰⁰ USTA argues that with increased competition and alternative networks providing telecommunications services, the 43-07 is irrelevant and no longer serves a useful purpose.³⁰¹ USTA contends that it would be more cost effective and efficient to use data requests should this information be needed.³⁰²

160. We agree that some of the current reporting requirements are redundant or outmoded, but we decline to eliminate the ARMIS 43-07 in its entirety at this time. The information collected in ARMIS 43-07 provides the Commission with information about the infrastructure -- capacity, and operating characteristics of the vast majority of the nation's wireline network -- basic infrastructure information on carriers that provide service to 93 percent of the Nation's customers.³⁰³ While there may be no need to collect such data in the long term, there is continued utility in collecting such data through this mechanism in the short term to evaluate the effects of public policy choices on those carriers that play a critical role in our national economy and to calibrate our actions. We recognize that adequate information for regulatory purposes could be generated through state or regional activities or through our *Local Competition and Broadband Data Gathering Program*, and we intend to develop a record on whether this is a preferred approach.³⁰⁴ Thus, at this time, we will limit our streamlining to those current reporting requirements that are redundant or that have clearly outlived their usefulness.

161. Table I - Switching Equipment. In the *Notice*, the Commission proposed to eliminate the collection of outdated information and to collect information on newer technologies. In Table I (Switching Equipment), the Commission proposed to eliminate all reporting requirements for electromechanical switches (rows 0130-0141).³⁰⁵ Ohio CC and NASUCA oppose the elimination of information on electromechanical switches, and argue that until there are no electromechanical switches remaining in the public switched network, it remains an

³⁰⁰ USTA Comments at 25-26; Verizon Comments at 12; BellSouth Comments at 6-7.

³⁰¹ USTA Comments at 25.

³⁰² *Id.*

³⁰³ The State members of the Joint Board on Separations urge the Commission to continue accounting mechanisms that support ARMIS Report 43-04 and to retain ARMIS Reports 43-07 and 43-08 because the information in those reports is necessary to evaluate separations reform measures. Joint Board Reply Comments at 2-3. They note that one option for separations reform would be to assign directly all facilities based upon the location of those facilities in the network; the state members say that it would be difficult to evaluate this alternative without information similar to the infrastructure report and the detailed Part 32 sub-account data. *Id.* at 3.

³⁰⁴ See Further Notice of Proposed Rulemaking. *But see* Michigan observes that information obtained on broadband deployment by the Michigan Economic Development Corporation from the Commission was either insufficient or restricted by non-disclosure agreements. Michigan Oct. 3, 2001 *ex parte* at 2.

³⁰⁵ *Notice* at ¶ 68.

important element of the network.³⁰⁶ Other commenters, however, agree with our proposal to eliminate the collection of these data.³⁰⁷ We note that for the year 2000, the total for all reporting companies of electromechanical switches was zero. We conclude that there is little value in requiring carriers to continue to report that they have no electromechanical switches. Therefore, we adopt the proposal in the *Notice* and eliminate all reporting requirements for electromechanical switches (rows 0130-0141).

162. The Commission also proposed to eliminate reporting requirements for analog stored-program-control (ASPC) and digital stored-program-control (DSPC) switches except for the total number of switches and lines served (retain rows 0150, 0160, 0170 and 0180; eliminate rows 0151-0155, 0161, 0171-0175, and 0181). We find that there is no regulatory need for carriers to report percentages, as the Commission or any interested party can easily calculate them. Therefore, we are eliminating rows 0151, 0153, 0155, 0161, 0171, 0173, 0175, and 0181. For the year 2000, the total reported in row 154 (ASPC Tandems) was two. We find that there is little value in requiring carriers to continue to report such a minimal quantity. Therefore, we are eliminating row 0154. There is also no need to require carriers to report row 0152 (ASPC Local Switches), which is substantially the same as the Total ASPC switches in row 0150; therefore, we are eliminating row 0152. Similarly, because row 0170 is substantially the sum of row 0172 plus row 0174, we are eliminating rows 0172 and 0174. In conclusion, we are adopting the proposal in the *Notice* to eliminate rows 0151-0155, 0161, 0171- 0175, and 0181.

163. Additionally, the Commission proposed to eliminate all reporting requirements related to equal access and touch-tone capabilities (rows 0190-0221).³⁰⁸ Ohio CC and NASUCA oppose the elimination of information on equal access and touch-tone capabilities. They argue that, until equal access and touch-tone capability are universal, it will be important to know where in the public switched network they are unavailable.³⁰⁹ We note that for the year 2000 virtually all the reporting carriers' access lines had equal access and touch-tone capability. We conclude that there is little value in continuing to require these carriers to report the data regarding touch-tone capability and equal access.³¹⁰ Therefore, we adopt the proposal in the *Notice* and eliminate all such reporting requirements (rows 0190-0221).

164. The Commission also proposed to eliminate reporting of information related to Signaling System 7 (SS7)³¹¹ and integrated services digital network (ISDN)³¹² capabilities except

³⁰⁶ Ohio CC and NASUCA Joint Comments at 8.

³⁰⁷ See, e.g., WorldCom Comments at 7; GSA Comments at 11; NARUC Comments at 12; Idaho Comments at 7; Florida Comments at 11.

³⁰⁸ In our *ARMIS Reductions Report and Order*, we eliminated 55 rows pertaining to equal access from ARMIS Report 43-04, because the nearly complete transition to equal access reduced our need to monitor its deployment. See *ARMIS Reductions Report and Order*, 14 FCC Rcd at 11450-451, ¶¶ 14-15.

³⁰⁹ Ohio CC and NASUCA Joint Comments at note 11.

³¹⁰ BellSouth agrees that reporting information on the availability of touch-tone services is not useful. BellSouth Comments at 6.

³¹¹ SS7 provides a means for networks and interoffice switches to communicate with each other using digital links outside the voice channel.

³¹² ISDN technology provides the service protocols and channel designations for digital services to customers and can convey voice, data, or compressed video. Basic rate interface ISDN are provided as two 64-kilobit data channels and one 16-kilobit control channel associated with each basic rate access line.

to retain information concerning total switches, lines, local switches, and tandems equipped with SS7 and ISDN capabilities.³¹³ Commenters agree that this information is no longer needed for our current regulatory needs.³¹⁴ There is no need for carriers to report percentages, as the Commission or any interested party can easily calculate them. Therefore, we are eliminating rows 0231, 0233, 0235, 0237, 0241, 0247, 0251, 0257, 0271, 0281, 0291, and 0301.

165. In addition, we note that most switches equipped with SS7-394 capability are also equipped with SS7-317 capability; therefore, the data reported in the interLATA and intraLATA rows for switches and tandems in this section are almost identical. Having carriers report information in both the row for SS7-394 capability and the row for SS7-317 capability appears to be superfluous. Therefore, we are eliminating rows 0234, 0236, 0246, and 0256. We are renaming row 0230 “Total switches equipped with SS7.” We are renaming row 0240 “Local switches equipped with SS7” and row 0250 “Tandems equipped with SS7.” We conclude that there is no need to continue reporting the number of lines with SS7 service because that is essentially the same as row 0120. Therefore, we eliminate row 0232.

166. In the *Notice*, the Commission sought comment on whether its monitoring program should include information on new technologies that indicate how carriers are upgrading the public switched network.³¹⁵ The Commission sought comment on whether to include information for switches capable of transmitting the asynchronous transfer mode (ATM) protocol in Table I. The Commission also sought comment on including data on switched multi-megabit data service (SMDS), internet routers, and frame relay service³¹⁶ in Table I. These services, widely offered to business customers for high-volume usage, are high-speed data telecommunications services built upon packet-switching technology.

167. USTA contends that we should not add this information to the ARMIS 43-07, but that this should be collected from all providers through the *Local Competition and Broadband Data Gathering Program*.³¹⁷ USTA’s arguments are far from trivial. The Communications Act mandates the creation and promotion of a multi-provider local service environment in which all providers will deploy newer technologies. To the extent the Commission is concerned with monitoring the deployment of such technologies, it may be more appropriate for the Commission to collect the appropriate information comprehensively, and we therefore seek comment on this possibility in the attached Further Notice of Proposed Rulemaking. We also acknowledge that such comprehensive efforts, such as the *Local Competition and Broadband Data Gathering Program* are more likely than ARMIS reporting to balance carefully the regulatory need for the information against the burdens that reporting requirements impose on carriers, particularly newer entrants. To date, we have not yet fully evaluated whether it is more appropriate to track these newer technologies through ARMIS or through the *Local Competition and Broadband Data*

Primary rate interface ISDN provides the capacity of twenty-three 64-kilobit data channels and one 64-kilobit control channel.

³¹³ *Notice* at ¶ 68.

³¹⁴ WorldCom Comments at 7; BellSouth Comments at 6.

³¹⁵ *Notice* at ¶ 69. Several commenters supported this proposal. *See, e.g.*, Utah Comments at 4; Ohio CC and NASUCA Joint Comments at 9; North Carolina Public Staff Comments at 5; NARUC Comments at 12; Idaho Comments at 7-8; Florida Comments at 11-12; Maryland Sept. 7, 2001 *ex parte* at Appendix.

³¹⁶ Frame relay service is a high-speed packet-switching technology used to communicate digital data between, among other things, geographically dispersed local area networks (LANs).

³¹⁷ USTA Comments at 26.

Gathering Program or to address our deployment concerns through other means. Any such examination would have to involve our state commission colleagues and any interested parties. In the meantime, we decline to impose additional ARMIS requirements that would fall disproportionately on one segment of the industry.

168. Table II - Transmission Facilities. Table II collects information about components of the network that are used to carry voice, video, and data traffic. Data reported in Table II provide information about transmission facilities for the study area of the carrier. The information is not disaggregated by Metropolitan Statistical Areas (MSA) and non-MSA, as Table I is. The deployment of new technologies and new services in rural areas has been a matter of particular concern for the Commission and other policymakers, and we are trying to better understand the provision of services in these areas.³¹⁸ In the *Notice*, the Commission sought comment on whether to add columns for MSA and non-MSA in Table II. USTA and Verizon argue that it would be extremely burdensome for LECs to report by MSA and non-MSA on Table II.³¹⁹ Ohio CC and NASUCA and Wyoming support the proposal to have carriers report by MSA and non-MSA.³²⁰

169. Transmission facilities are a critical component in the provisioning of new services to rural areas. We cannot compare rural and urban infrastructure development using information as currently reported in ARMIS 43-07. The commenters persuade us, however, that such disaggregation of these data would require incumbent LECs to undertake labor intensive and costly studies. At this time, we are not persuaded that the benefits of having these data in a more disaggregated form would justify the expense involved in such an undertaking.

170. In the first section of Table II, "Sheath Kilometers," carriers report data on transmission facilities within their operating areas. Carriers use either analog or digital technology on copper wire, coaxial cable, fiber, radio, and other media. In the *Notice*, the Commission proposed to change the title "Sheath Kilometers" to "Loop Sheath Kilometers" and to narrow the collection of data to only local loop facilities connecting customers to their serving offices.³²¹ We conclude that this information would be more useful for policymakers and interested parties if it were narrowed to local loop facilities connecting customers to their service offices. Therefore, we now change the title to "Loop Sheath Kilometers" and limit the collection of data to local loop facilities.

171. In the second section of Table II, "Interoffice Working Facilities," total circuit links are reported for baseband, analog carrier, and digital carrier. In the *Notice*, the Commission sought comment on whether to eliminate the reporting requirements that further distinguish baseband, analog, and digital (rows 0331, 0332, 0333, 0350, 0351, 0352, 0360, 0361, 0362, 0363).³²² AT&T contends that we should not eliminate these data because they are essential for benchmarking and monitoring purposes.³²³ It appears, however, that these data are often reported in an inconsistent manner by the carriers, and therefore are not reliable for benchmarking

³¹⁸ See *Local Competition and Broadband Data Gathering Program*, 15 FCC Rcd 7717 (2000).

³¹⁹ USTA Comments at 26; Verizon Comments at 11.

³²⁰ Ohio CC and NASUCA Joint Comments at 9; Wyoming Comments at 4.

³²¹ USTA contends the majority of LECs do not have the ability to collect these data solely for loop plant. USTA Comments at 26.

³²² *Notice* at ¶ 72.

³²³ AT&T Comments at 8. See also Ohio CC and NASUCA Joint Comments at 8.

purposes.³²⁴ We find that there is no significant regulatory need to retain the subcategories in rows 0331 through 0363. Therefore, we eliminate these rows.

172. The Commission also sought comment on including categories for optical carrier facilities and non-optical carrier facilities.³²⁵ Optical carrier facilities, such as synchronous optical networks (SONET) are currently being deployed by the incumbent LECs. Ohio CC and NASUCA support requiring carriers to report this information.³²⁶ After reviewing the record, we are not convinced that our ARMIS reports are appropriate for tracking the deployment of SONET. SONET equipment, *i.e.*, terminal multiplexers and add/drop multiplexers, comprise a major portion of interoffice facilities. It is also present in loop facilities where it supports digital metallic or fiber loops. SONET physical topologies include point-to-point, linear, tree, and ring configurations. Due to SONET's widespread use in diverse configurations, our ARMIS reports may not be adequate to track the deployment of SONET. Therefore, we decline to add categories for these facilities at this time.

173. In the third section of Table II, "Loop Plant-Central Office Terminations," carriers report total working channels and total equipped channels. Under each category, there is a requirement for reporting six subcategories (copper, baseband, analog carrier, digital carrier, fiber digital carrier, and other). In the *Notice*, the Commission sought comment on whether to eliminate the reporting of six subcategories of equipped channels, and retain only the total of equipped channels.³²⁷ GSA argues, and we agree, that these subcategories should not be eliminated at this time because the relationship of working channels to equipped channels is important in the analysis of copper plant utilization. Together with financial information, such analysis is used in determining appropriate forward-looking depreciation lives for present use in developing inputs to our high cost model for our universal service purposes and state use in UNE cost studies.³²⁸ Therefore, we are retaining the subcategories in these rows in ARMIS, pending further exploration of alternative means of gathering such information.

174. In the *Notice*, the Commission proposed to eliminate reporting of fiber strands terminated at the customer premises at the DS-0 rate (row 0481) and fiber strands terminated at the customer premises at the DS-2 rate (row 0483) from the fourth section of Table II, "Other Transmission Facility Data."³²⁹ AT&T argues that these data are essential for benchmarking and monitoring purposes.³³⁰ We agree that as a general matter this information can be helpful; however, virtually no incumbent LEC reports the termination of DS-2 level services at the customer premises, and therefore row 0483 does not provide useful information. We conclude that row 0483 should be eliminated. We also conclude that row 0481 (DS-0 rate) should be eliminated. DS-0 level services are generally bundled into DS-1 size packages, and by capturing the required information at the DS-1 level, we do not need to collect the information at the DS-0

³²⁴ A review of these data suggests that the reporting carriers are not reporting the same things. Therefore, the data are not comparable.

³²⁵ *Notice* at ¶ 72.

³²⁶ Ohio CC and NASUCA Joint Comments at 9.

³²⁷ *Notice* at ¶ 73.

³²⁸ *See, e.g.*, GSA Comments at 12; AT&T Comments at 8.

³²⁹ *Notice* at ¶ 74.

³³⁰ AT&T Comments at 8.

level. Row 0482 (DS-1) will be renamed, because fiber is terminated at customer premises at the DS-3 level or greater, and referring to fiber terminations at the DS-1 level is inaccurate.

175. The Commission also sought comment on adding information on hybrid fiber-copper loop interface locations, number of customers served from these interface locations, xDSL customer terminations associated with hybrid fiber-copper loops, and xDSL customer terminations associated with non-hybrid loops. Such information is not presently collected through any federal reporting program. WorldCom argues that this report should be updated with the reporting of digital loop carrier deployment and other changes in the local loop plant.³³¹ We find that the addition of these rows to ARMIS would help satisfy an immediate and pressing need to assess the penetration of fiber in the local loop and gauge the development of broadband infrastructure. Hybrid architectures will likely become increasingly important in providing broadband services and are directly relevant to current criticisms by new entrants that the new architectures are systematically diminishing their ability to provide competing DSL service to end-user retail customers. We conclude that there is a present federal regulatory need, at least for the near term, to collect such data to evaluate the effects of our public policy decisions and to consider whether more market-oriented approaches are appropriate. Therefore, we are adding the following rows to ARMIS: “Hybrid Fiber/Metallic Loop Interface Locations,”³³² “Switched Access Lines Served from Interface Locations,”³³³ “Total xDSL Terminated at Customer Premises,”³³⁴ and “xDSL Terminated at Customer Premises via Hybrid Fiber/Metallic Interface Locations.”³³⁵ As set forth in the attached Further Notice, we seek comment on whether we should collect this information as part of our *Local Competition and Broadband Data Gathering Program*, rather through ARMIS.

176. Table III - ILEC Call Set-up Time. In Table III, information is provided about incumbent LEC call set-up time for calls delivered by the incumbent LEC to interexchange carriers. Incumbent LEC call set-up time measures the time from when the customer completes dialing until the call reaches an interexchange carrier. This information was important when carriers used different signaling systems, but now that SS7 is predominant, there is little

³³¹ WorldCom Comments at 8. See also Maryland Sept. 7, 2001 *ex parte* at Appendix (arguing that we should upgrade ARMIS to collect information on new technologies and upgrades and investments in switching and transmission capacity that are critical components of the carriers’ network infrastructure).

³³² “Hybrid Fiber/Metallic Loop Interface Locations” will contain the number of locations other than central office locations where an interface between fiber cable and copper pairs or coaxial cable exists. This will include fiber to the curb locations, fiber to the pedestal locations, and other similar locations with a fiber/metallic interface capable of providing broadband services.

³³³ “Switched Access Lines Served from Interface Locations” will contain the number of switched access lines reported in row 0120 that are physically routed through the interface locations reported in “Hybrid Fiber/Metallic Loop Interface Locations.”

³³⁴ “Total xDSL Terminated at Customer Premises” will contain the total number of incumbent LEC provided working digital subscriber lines terminated at customers’ premises locations. This will include lines provided over metallic loop facilities and lines provided over a combination of fiber and metallic loop facilities. This will also include lines terminating in either incumbent LEC-provided or customer-provided termination equipment. Only those lines that are totally provided by the incumbent LECs are included.

³³⁵ “xDSL Terminated at Customer Premises via Hybrid Fiber/Metallic Interface Locations” will contain the number of customer-premises-terminated working digital subscriber lines that are provided through a hybrid fiber/metallic interface location included in “Hybrid Fiber/Metallic Loop Interface Locations.” This will include only those lines that are provided at least partially on fiber facilities.

difference among LECs. In the *Notice*, the Commission proposed to eliminate this table.³³⁶ AT&T argues that these publicly available data are important for interexchange carriers (IXCs) seeking to monitor the performance of LECs in the provision of access services.³³⁷ We are not persuaded, and conclude that this information is no longer significant.³³⁸ Therefore, we eliminate Table III.

177. Table IV - Additions and Book Costs. In Table IV, carriers report data concerning total access lines in service, access line gain, and total gross capital expenditures. This information provides data on carriers' actions to maintain and upgrade the network. The data in this table are at the study-area level. Similar data in the ARMIS 43-02 Report are available at either the operating-company or company-study-area (state) level, but are not directly comparable to these data. In the *Notice*, the Commission sought comment on whether to continue to collect this information.³³⁹ AT&T argues that these data are essential for benchmarking and monitoring purposes.³⁴⁰ We conclude that we can eliminate the filing of this table because similar data are available in other ARMIS reports or can be generated by reference to other ARMIS reports.

7. ARMIS 43-08 (Operating Data Report)

178. The ARMIS 43-08 Report collects data about the carrier's outside plant, access lines in service by technology and by customer, number of telephone calls, and billed access minutes. All incumbent LECs with annual operating revenues for the preceding year equal to or above the indexed revenue threshold file the 43-08 Report on an operating company basis. USTA, BellSouth, and Verizon argue that we should eliminate Report 43-08 altogether, because it is obsolete.³⁴¹ USTA contends that the definitions for the 43-08, Table III are becoming more ambiguous as the public switched network evolves toward a data platform.³⁴² USTA observes that in a high bandwidth network, the concept of DS0 equivalents is no longer viable.³⁴³ Other commenters contend that the ARMIS 43-08 tables, which collect data on an operating company level by state, provide us with the ability to assess trends in investment in physical plant and to benchmark among carriers.³⁴⁴ Oregon also states that it periodically uses ARMIS 43-08 to obtain information about access lines in other jurisdictions.³⁴⁵ After careful consideration of these

³³⁶ *Notice* at ¶ 75.

³³⁷ AT&T Comments at 8.

³³⁸ WorldCom Comments at 7.

³³⁹ *Notice* at ¶ 76.

³⁴⁰ AT&T Comments at 8.

³⁴¹ USTA Comments at 26; BellSouth Comments at 6 & Reply Comments at 7; Verizon Comments at 12.

³⁴² USTA Comments at 26.

³⁴³ *Id.*

³⁴⁴ *See, e.g.,* AT&T Comments at 8; WorldCom Reply Comments at 7-8. NCTA observes that columns in Table I.A for Equivalent number of poles (v), Conduit system trench Km (w), and Conduit system duct Km (x) are needed for calculation of pole and conduit rental. *See* NCTA Aug. 31, 2001 *ex parte*.

³⁴⁵ Oregon Comments at 6.

competing views, we conclude that some of the information in ARMIS 43-08 is of little value and thus we eliminate certain categories of this report as follows.

179. Table I.A – Outside Plant Statistics – Cable and Wire Facilities. In the *Notice*, the Commission sought comment on whether to eliminate the reporting requirements in Table 1.A (Outside Plant Statistics – Cable and Wire Facilities), that distinguish among aerial, underground, buried, submarine, deep sea, and intrabuilding cable plant (columns d – o). After reviewing the record, we conclude that columns d through i, n, and o are useful and should not be eliminated. As WorldCom and GSA observe, this information concerning network maintenance and upgrading is utilized to develop inputs to the high cost model for universal service purposes and to develop inputs to models used to determine forward-looking economic costs in state UNE ratemaking proceedings.³⁴⁶ Pending further exploration of alternative means of gathering such information, we believe we should retain this reporting requirement in ARMIS to meet ongoing federal and state regulatory needs.³⁴⁷ Columns j, k, l, and m, however, can be eliminated because little, if any, data are reported for these categories. Therefore, we are only eliminating columns j, k, l, and m.

180. Table I.B - Outside Plant Statistics – Other. In the *Notice*, the Commission proposed to eliminate the reporting of information on satellite channels and video circuits for carriers' radio relay and microwave systems (columns be, bj, bm). Due to changes in technology, data collected in these areas no longer are relevant to our policy analysis on various issues. Therefore, we are eliminating these three columns.

181. Table II - Switched Access Lines in Service by Technology. In the *Notice*, the Commission proposed to eliminate the distinction between analog and digital lines, and require carriers to report the total of main access lines, PBX and Centrex units, and Centrex extensions (retain columns cc, cd, and ce on a total basis; and eliminate columns cf, cg, and ch).³⁴⁸ WorldCom contends that we should not eliminate this information because it is required to estimate forward-looking costs in the Commission's synthesis model and in other forward-looking cost models.³⁴⁹ After reviewing the record, we conclude that this information would be more useful if provided on a total basis, instead of disaggregated by analog and digital. Due to changes in technology, data collected in some of these areas are trivial and no longer provide relevant information. Therefore, we are adopting the proposal in the *Notice*, and eliminating the distinction between analog and digital by eliminating columns cf, cg, and ch.

182. Table III - Access Lines in Service by Customer. In the *Notice*, the Commission proposed to narrow the information collection to total number of Business Access Lines (Single-Line and Multi-Line) and Residential Access Lines (Lifeline/Non-Lifeline and Primary/Non-Primary).³⁵⁰ For example, the synthesis model uses data concerning single-line business, multi-line business, payphone, residential, and special (special access) in determining wire center costs, for universal service purposes.³⁵¹ The Commission also sought comment on whether Special Access Lines (Analog and Digital) (columns dk and dl) provide accurate information about the

³⁴⁶ WorldCom Comments at 8; GSA Comments at 12.

³⁴⁷ See Further Notice of Proposed Rulemaking at paragraphs 208-211.

³⁴⁸ *Notice* at ¶ 77.

³⁴⁹ WorldCom Comments at 8.

³⁵⁰ *Notice* at ¶ 79.

³⁵¹ *Id.*

carriers' provision of special access lines and whether there is a need for clarification of this reporting requirement.

183. After reviewing the record, we conclude that extensive structural changes to Table III are warranted. We eliminate the column for Mobile Access Lines, because little, if any, data are reported for this category. The revised table will also contain new columns matching the revised data requirements, discussed above. Columns "Single Line Business Access Lines" and "Multiline Business Access Lines" will be under the "Business Switched Access Lines" heading. Columns "Lifeline Access Lines," "Non-Lifeline Primary Access Lines," and "Non-Lifeline Non-Primary Access Lines" will be under the "Residential Switched Access Lines" heading. A column "Local Private Lines" is added. Finally, we conclude that the instructions and definitions for columns dk and dl are sufficiently clear and that there is no need to revise or clarify them.

E. Relief for Mid-Sized Carriers

184. As previously noted, the Commission uses an indexed revenue threshold to determine which carriers are classified as Class A and which carriers are classified as Class B. Class A companies are defined as companies having annual revenues from regulated telecommunications operations that are equal to or above the indexed revenue threshold.³⁵² That revenue threshold is currently \$117 million.³⁵³ Class A carriers are required to keep their accounts at a greater level of detail, file CAMs with the Commission, have those CAMs audited by an independent auditor, and file ARMIS reports.³⁵⁴ Class B carriers, in contrast, may keep their accounts at a more aggregated level of detail, are not required to file CAMs, are not required to have their CAMs audited by an independent auditor, and are not subject to ARMIS financial reporting requirements.³⁵⁵

185. Today there are over 1300 incumbent LECs in the country. Of those, the Class A carriers are the BOCs (the operating companies of Verizon, SBC, BellSouth, and Qwest) and the operating companies of ALLTEL, Cincinnati Bell, Citizens Communications, Sprint, C-TEC, Roseville, and CenturyTel. The BOCs have 87.6 percent of the incumbent LECs' access lines, while the remaining Class A companies collectively have 6.1 percent of the incumbent LECs' access lines. Thus, all the Class A companies have 93.7 percent of the incumbent LECs' access

³⁵² 47 C.F.R. § 32.11(a)(1).

³⁵³ See "Annual Adjustment of Revenue Threshold," *Public Notice*, DA 01-903 (rel. Apr. 11, 2001) (adjusting annual indexed revenue threshold to \$117 million). The classification of a company is determined at the start of the calendar year following the first time its annual operating revenue from regulated operations equals, exceeds, or falls below the indexed revenue threshold. 47 C.F.R. § 32.11(e).

³⁵⁴ More specifically, a carrier files ARMIS Reports 43-01, 43-02, 43-03, 43-04, and 43-08 when the carrier's annual operating revenues for the preceding year equals to or exceeds the indexed revenue threshold. Similarly, a carrier with annual operating revenues for the preceding year that is equal to or exceeds the indexed revenue threshold must file a CAM and have the CAM audited. These reporting requirements are based on total, not regulated, operating revenues. See *Implementation of the Telecommunications Act of 1996*, CC Docket No. 96-193, *Report and Order*, 12 FCC Rcd 8071, 8102, ¶ 68 (1997).

³⁵⁵ In the *Joint Cost Order*, the Commission adopted cost allocation standards and affiliate transactions rules for all LECs (with the exception of average schedule companies) but exempted the smaller companies from the requirement to file a cost allocation manual and an annual independent audit. See *Joint Cost Order*, 2 FCC Rcd at 1304, ¶ 47.

lines. The remaining companies are classified as Class B; collectively they have 6.3 percent of the incumbent LECs' access lines.

186. There is a significant variation in the size and scope of the operating companies that currently are classified as Class A.³⁵⁶ In general, the BOCs are significantly larger than the remaining Class A companies.³⁵⁷ The operating company of BellSouth had annual revenues reported in ARMIS of over \$17.6 billion. The operating company of Qwest had annual revenues reported in ARMIS of over \$11.5 billion. The largest SBC operating company, Southwestern Telephone Company, had annual revenues of over \$12.4 billion.³⁵⁸ The largest Verizon operating company, Verizon-New York Telephone, had annual revenues of over \$8.1 billion.³⁵⁹ The revenues of the mid-sized companies range from over \$114.9 million for Roseville to over \$1.4 billion for Sprint-Florida (an operating company of Sprint).³⁶⁰ Likewise, in terms of access lines, the BOCs range from over 25.4 million (BellSouth) to 193,992 (Verizon Mid-States), while the access lines of the remaining Class A companies (mid-sized companies) range from over 2.2 million for Sprint-Florida to 124,453 for Roseville.³⁶¹

187. In recognition of the differences between the mid-sized companies and the BOCs, the Commission has differentiated between these carriers in terms of accounting and reporting requirements. For example, in the *ARMIS Reductions Report and Order*, the Commission reduced ARMIS filing requirements for mid-sized carriers, defined as a carrier whose operating revenue equals or exceeds the indexed revenue threshold, and whose revenue when aggregated with the revenues of any LEC that it controls, is controlled by, or with which it is under common control is less than \$7 billion.³⁶² Specifically, the Commission permitted mid-sized carriers to file financial ARMIS reports at a Class B level of detail. Similarly, in the *Accounting Reductions Report and Order*, the Commission allowed mid-sized incumbent LECs to submit CAMs based on Class B accounts and to obtain an attestation every two years in lieu of an annual financial audit.³⁶³ In that proceeding, the Commission concluded that it could maintain the necessary degree of oversight and monitoring to protect consumers' interests while imposing the less administratively burdensome requirements on such carriers.³⁶⁴

188. In the *Notice*, the Commission proposed further reductions in accounting and reporting requirements for the mid-sized carriers. The Commission proposed to eliminate mandatory annual CAM filings and biennial CAM attestation engagements for mid-sized

³⁵⁶ The following Class A revenues are from 2000 ARMIS data.

³⁵⁷ There are a few exceptions, such as Nevada Bell (an operating company of SBC) and Verizon Mid-States (an operating company of Verizon), which are smaller than many of the mid-sized companies.

³⁵⁸ All of the SBC operating companies, combined, reported over \$38.5 billion in 2000 revenues.

³⁵⁹ All of the Verizon operating companies, combined, reported over \$41.2 billion in 2000 revenues.

³⁶⁰ All of the Class A Sprint operating companies, combined, reported approximately \$5.3 billion in 2000 operating revenues. Sprint also has Class B companies, which combined had approximately \$128 million in operating revenues. We also note that Roseville has now passed the indexed revenue threshold and is considered a mid-sized carrier.

³⁶¹ All of the Class A Sprint operating companies, combined, reported over 7.8 million access lines. Sprint's Class B operating companies had 356,250 access lines.

³⁶² See *ARMIS Reductions Report and Order*, 14 FCC Rcd at 11449, ¶ 12.

³⁶³ See *Accounting Reductions Report and Order*, 14 FCC Rcd at 11406 - 07, ¶¶ 21 - 22.

³⁶⁴ *Id.*

carriers.³⁶⁵ Under this proposal, the mid-sized carriers would instead file an annual certification with the Commission. As an alternative, the Commission sought comment on reclassifying the mid-sized carriers as Class B carriers.³⁶⁶ The Commission also sought comment on raising the indexed revenue threshold -- the dividing line between Class A carriers and Class B carriers -- to \$200 million.³⁶⁷

189. As discussed below, we conclude that we can significantly lighten regulatory burdens for mid-sized carriers by adopting the proposals in the *Notice* to eliminate mandatory CAM filings and attestation audits for mid-sized carriers. We also significantly streamline ARMIS reporting for the mid-size companies. The net effect of the reforms we adopt today, coupled with measures already taken, will be to treat the mid-sized carriers like Class B companies in virtually all respects. We decline to formally reclassify the mid-sized carriers as Class B companies, however, as that action would impact our ability to administer the universal service high-cost support mechanism for non-rural carriers. Finally, we address the status of Roseville and CenturyTel, mid-sized carriers, which crossed the indexed revenue threshold in 1999, and became subject to ARMIS reporting and CAM requirements in 2000.

1. Cost Allocation Manuals

190. We adopt the proposal in the *Notice* to eliminate the annual CAM filing for mid-sized carriers. Under section 64.901 of the Commission's rules, all carriers (except average schedule companies) must separate regulated from nonregulated costs. While mid-sized carriers no longer will be required to annually file a CAM, they, like all other carriers, must be prepared to produce documentation of how they separate regulated from nonregulated costs to the Bureau, upon request. To ensure that the carrier has adequate procedures in place to separate the costs of their nonregulated activities from their regulated operations, in accordance with our rules, carriers are always free to seek guidance from the Common Carrier Bureau.

191. We also adopt the proposal in the *Notice* to eliminate the requirement that CAMs of mid-sized carriers be subject to an attest audit every two years. Instead of requiring mid-sized carriers to incur the expense of a biennial attestation engagement, they will file a certification with the Commission stating that they are complying with section 64.901 of the Commission's rules. The certification must be signed, under oath, by an officer of the incumbent LEC, and filed with the Commission on an annual basis. Such certification of compliance represents a less costly means of enforcing compliance with our cost allocation rules.

192. We emphasize that all incumbent LECs (except average schedule companies) remain subject to our cost allocation rules, which are increasingly important as more carriers diversify into competitive ventures. Indeed, one commenter argues that certain mid-sized carriers may have a larger percentage of operations in non-regulated activities than do some of the largest LECs.³⁶⁸ The action we take today seeks merely to reduce the costs associated with ensuring compliance with our cost allocation rules. We are aware that some mid-sized carriers have more limited resources than the larger companies, and that the cost of regulatory compliance may disproportionately impact these carriers. These carriers account for a small fraction of the

³⁶⁵ *Notice* at ¶ 82.

³⁶⁶ *Id.* at ¶ 80.

³⁶⁷ *Id.* at ¶ 83.

³⁶⁸ *See* AT&T Comments at 10.

nation's access lines. These rule changes -- eliminating the annual CAM filing and the biennial attestation engagement -- should significantly reduce the mid-sized carriers' costs in complying with the Commission's cost allocation rules. We note, however, that pursuant to section 220(c), the Commission has the authority to request further information or order an audit of any carrier's books to ensure compliance with our cost allocation requirements.

2. ARMIS Reporting Requirements

193. In the *Notice*, the Commission proposed eliminating the ARMIS 43-02, 43-03, and 43-04 reporting requirements for mid-sized carriers.³⁶⁹ The Commission also sought comment on the costs and benefits of requiring mid-size carriers to file ARMIS 43-08.³⁷⁰ In addition, the Commission sought comment on eliminating all ARMIS filing for mid-sized carriers.³⁷¹ Commenters opposing the proposal to eliminate these reports for mid-sized carriers contend that this information is needed by state commissions, state consumer advocates, and other parties in reviewing the operations of mid-sized carriers.³⁷² On the other hand, several commenters urge the Commission to eliminate all ARMIS filings for mid-size carriers.³⁷³ CBT argues that mid-sized carrier data are an insignificant portion of the ARMIS data collected, and the Commission should not require mid-sized carriers to file any ARMIS reports.³⁷⁴ Roseville and Iowa Telecom contend that preparing and filing ARMIS reports for the first time will require substantial personnel and monetary resources.³⁷⁵ Sprint, the largest of the mid-sized carriers, contends that its annual, fully loaded cost for preparing ARMIS reports is \$250,000.³⁷⁶

194. We recognize that some of the mid-sized carriers have financial transactions that are generally smaller and fewer in number than the larger incumbent LECs. We also note that although we have already streamlined the ARMIS reporting requirement for mid-sized carriers, by permitting them to file ARMIS at the more aggregated Class B level, the cost of filing ARMIS reports may be higher for the mid-sized carriers, on a per line basis, than for the larger Class A companies. We are also aware that while mid-sized companies have the same incentives and opportunities for shifting costs between services, our federal regulatory focus has primarily been on the larger LECs that comprise most of the access lines. We therefore conclude that it is appropriate at this time to provide additional reporting relief to mid-sized carriers. In balancing

³⁶⁹ *Notice* at ¶ 84.

³⁷⁰ *Id.* at ¶ 85. Commenters did not specifically address this issue.

³⁷¹ *Id.* at ¶ 80.

³⁷² *See, e.g.*, Ohio CC and NASUCA Joint Comments at 11; AT&T Comments at 9-10; WorldCom Comments at 10; Idaho Comments at 7; Oregon Comments at 7; Wisconsin Comments at 22-23; NARUC Reply Comments at 7.

³⁷³ *See, e.g.*, Sprint Comments at 2; CBT Comments at 8-11; ALLTEL Comments at 3 (requesting no CAM or ARMIS requirements for the ALLTEL companies); Roseville Comments at 8-9; ITTA Comments at 8; USTA Comments at 27.

³⁷⁴ CBT Comments at 10-11.

³⁷⁵ Roseville Comments at 3-5; Iowa Telecom Comments at 4. Roseville estimates (for its initial ARMIS filing) that it will take 4,690 hours, or \$272,000. Roseville Comments at 4-5.

³⁷⁶ Sprint Comments at 4. Clearly this is not an insignificant sum, however, it is only 0.048 percent of Sprint's annual revenue. Ohio CC and NASUCA Joint Reply Comments at 10.

the carriers' costs and our regulatory needs, we conclude that the mid-sized carriers will no longer be required to file the ARMIS 43-02, 43-03, or 43-04 Reports.³⁷⁷

195. We are not persuaded, however, that we should eliminate ARMIS reporting altogether for the mid-sized carriers. Our primary concern is to preserve our ability to obtain information used to compute non-rural carrier universal service high-cost support. We retain at this time the requirement that mid-sized carriers file the ARMIS 43-01 and 43-08 Reports. Information in these reports is utilized to develop inputs to the high cost model for universal service purposes and develop inputs to models used to determine forward-looking economic costs in state UNE ratemaking proceedings. For example, the line count input values used in the universal service model include special access lines, which are currently reported in the ARMIS 43-08 Report. Similarly, the switching input values include company-specific telephone call data, which are reported only in the ARMIS 43-08 Report. We intend to initiate a proceeding in the near future to examine how often and to what extent the high cost model inputs should be revised and updated. In that proceeding, we intend to explore alternatives to ARMIS reporting as a means of obtaining the data necessary to generate inputs used in the universal service cost model.

196. We note that in addition to information contained in ARMIS Reports 43-01 and 43-08, the Commission has used other accounting information from mid-sized carriers to develop inputs for the universal service model. While mid-sized carriers no longer are required to report certain information in ARMIS, we expect those companies will maintain sufficient information to be able to produce the data set forth in Appendix E, upon request.

197. In addition, mid-sized incumbent LECs should continue to maintain subsidiary record categories to provide the data currently provided in the Class A accounts, which are necessary to calculate just and reasonable pole, duct, conduit, and right-of-way attachment rates pursuant to section 224 of the Communications Act.³⁷⁸ These carriers must report this information, necessary for the Commission and interested parties to calculate and verify attachment rates, in ARMIS, so that the information is publicly available and verifiable.

198. We recognize that the states may need certain information from these carriers in order to carry out their regulatory duties and responsibilities.³⁷⁹ Nothing in this decision is intended to preclude a state from imposing its own reporting requirements to review the operations of the mid-size companies. Moreover, we recognize that the costs and benefits of regulatory compliance may be weighed differently at the state level.

3. Regulatory Classification of Mid-Sized Carriers

199. By our actions today, mid-sized carriers will be treated like Class B carriers in virtually all respects. In light of the regulatory relief granted to all mid-sized carriers, we see no reason to modify the current indexed revenue threshold of \$117 million, which is the dividing line between Class A and Class B companies.³⁸⁰ No party in this proceeding has presented any

³⁷⁷ As previously noted, ARMIS 43-05 (filed by all price cap LECs) and 43-06 (filed by mandatory price cap LECs) are under examination in a separate proceeding and are not affected by our decision today.

³⁷⁸ See *Accounting Reductions Report and Order*, 14 FCC Rcd at 11404-05, ¶ 15.

³⁷⁹ See, e.g., Maryland Comments at 5-6; NARUC Reply Comments at 7.

³⁸⁰ The threshold between Class A and Class B will continue to be indexed annually in accordance with our current rules.

persuasive justification for why the threshold should be adjusted to \$200 million, or some higher figure.³⁸¹ We will continue to monitor developments in the marketplace, however, to ensure that our current definitional framework does not inadvertently create unintended consequences.

200. We grant ITTA's request that we index the \$7 billion threshold that divides the mid-sized carriers and the larger Class A carriers.³⁸² In 1996, we indexed the threshold between Class A and Class B carriers to implement the directive of the 1996 Act that the Commission adjust our existing revenue requirement to account for inflation in classifying carriers under section 32.11 and in establishing reporting requirements pursuant to Part 43.³⁸³ Subsequently, in 1999, we streamlined our regulatory treatment for the smaller Class A carriers by creating a new classification within Class A for the mid-sized carriers.³⁸⁴ We now conclude it would be analytically consistent with section 402(c) to henceforth index for inflation the revenue threshold that separates the larger Class A carriers and the mid-sized carriers.

201. We decline to redefine mid-sized carrier based on the two-percent of access lines standard suggested by several commenters.³⁸⁵ We historically have used revenues as the dividing line between larger and smaller companies, and we see no need at this time to depart from that practice. With the rule changes adopted today, we ensure that the mid-sized carriers will be subjected to lightened regulatory burdens.

4. Waivers for Roseville and CenturyTel

202. Due to the significant changes adopted in this Report and Order to our Chart of Accounts and the reporting requirements for mid-sized carriers, we are waiving, on our own motion, the ARMIS reporting requirements and CAM attestation requirements for Roseville and CenturyTel for the years 2000 and 2001. These two mid-sized companies have yet to file ARMIS reports for 2000.³⁸⁶ Without a waiver, these companies would be required to prepare ARMIS

³⁸¹ See Sprint Comments at 5 (\$400 million); TDS Comments at 7-8 (\$500 million); Roseville Comments at 10 (same); Iowa Telecom Comments at 2-3 (\$750 million).

³⁸² ITTA Comments at 16.

³⁸³ See Implementation of the Telecommunications Act of 1996, CC Docket No. 96-193, *Order and Notice of Proposed Rulemaking*, 11 FCC Rcd 11716, 11721-22, ¶¶ 10-12 (1996) (adopting interim rules to comply with the section 402(c) requirement that we adjust the revenue thresholds for inflation and that the adjustments take effect on February 8, 1996). Permanent rules were subsequently adopted in Implementation of the Telecommunications Act of 1996, CC Docket No. 96-193, *Report and Order*, 12 FCC Rcd 8071, 8089-092, ¶¶ 36-44 (1997).

³⁸⁴ See *Accounting Reductions Report and Order*, 14 FCC Rcd at 11403-04, ¶ 14.

³⁸⁵ See ALLTEL Comments at 10; Roseville Comments at 4-5; ITTA Comments at 8-16; CBT Comments at 8. We do not agree with ITTA that the use of a two percent standard in section 251(f)(2) of the Communications Act "represents Congress's view of a proper differentiation between large ILECs with substantial resources that require heightened Commission regulation and scrutiny, and small and mid-size ILECs," see ITTA Comments at 11, and therefore the Commission should use the two percent standard in defining Class A and Class B carriers for accounting purposes. Section 251(f)(2) of the Communications Act permits carriers with fewer than two percent of the Nation's subscriber lines installed in the aggregate nationwide to petition a state commission for a suspension or modification of interconnection requirements in section 251(b) or (c). 47 U.S.C. § 251(f)(2). This section has no application to the CAM and ARMIS filing threshold. See Implementation of the Telecommunications Act of 1996, CC Docket No. 96-193, *Report and Order*, 12 FCC Rcd 8071, 8102-03, ¶ 69 (1997).

³⁸⁶ These carriers sought, and were granted, extensions of time in which to file ARMIS reports. See Roseville Telephone Company Request for an Extension of Time to File ARMIS Reports, ASD File No.

reports for the years 2000 and 2001 based on our old chart of accounts. The ARMIS reports filed on April 1, 2003 (*i.e.*, for year 2002) will be based on the new chart of accounts adopted in this report and order.

203. The Commission may grant a waiver of its rules for good cause shown.³⁸⁷ Waiver of the Commission's rules is appropriate only if special circumstances warrant a deviation from the general rule and such deviation will serve the public interest.³⁸⁸ Roseville and CenturyTel are the only Class A companies that have not yet filed an initial ARMIS report. These companies have been granted an extension of time in which to file. We find that this particular situation, where our rules have changed before the parties have complied under old rules, is a special circumstance. Without a waiver, these companies would file ARMIS reports for the years 2000 and 2001 based on our old chart of accounts, and then file ARMIS reports for year 2002 based on our new chart of accounts. We find that in this case, special circumstances warrant a deviation of the general rule and the deviation will serve the public interest. Under these circumstances, it would be an inefficient use of resources to prepare ARMIS reports for the years 2000 and 2001 based on our old chart of accounts. A deviation of our general rule, in order to allow these two companies to file their initial ARMIS reports on April 1, 2003, under the new chart of accounts adopted in this Report and Order, would serve the public interest. The resources the companies would otherwise use in setting up their computer systems under the old chart of accounts can be used instead on service to their customers.

204. Similarly, we are also waiving our requirements for a CAM attestation for these mid-sized incumbent LECs. The attestation cannot take place until the ARMIS reports are prepared. We cannot, therefore, require a CAM attestation until after the ARMIS reports are filed and a CAM attestation will no longer be required of mid-sized companies under our rules adopted in this Report and Order. Therefore, we are waiving the ARMIS reporting requirements for Roseville and CenturyTel, and the CAM attestation requirement, for the years 2000 and 2001.

IV. FURTHER NOTICE OF PROPOSED RULEMAKING

A. Phase III (CC Docket No. 00-199 and 99-301)

205. Concurrent with the adoption of the Phase 2 *Notice*, the Commission also undertook a broader examination of the roadmap for accounting and reporting deregulation.³⁸⁹ The Commission recognized that as regulatory, technological, and market conditions change in the future, it must consider more fundamental changes to the accounting and reporting requirements. The Commission sought comment on whether there are certain triggers that would allow it to significantly modify or relieve accounting and reporting requirements that currently apply to incumbent local exchange companies. Among other things, the Phase 3 *Notice* sought comment on whether accounting and reporting requirements should be eliminated when carriers become

00-43, *Order*, 15 FCC Rcd 24093 (Com.Car.Bur. 2000); CenturyTel, Inc. and CenturyTel of Washington, Inc. Request for Extension of Time to Submit Cost Allocation Manual Attestation Reports and File ARMIS Reports, ASD File No. 00-45, *Order*, 16 FCC Rcd 1493 (Com.Car.Bur. 2000).

³⁸⁷ 47 C.F.R. § 1.3.

³⁸⁸ See United States Telephone Association Petition for Waiver of Part 32 of the Commission's Rules, *Order*, 13 FCC Rcd 214 (Com. Car. Bur. 1997) (*citing Northeast Cellular Tel. Co. v. FCC*, 897 F.2d 1164 (D.C.Cir. 1990) (*Northeast Cellular*); *WAIT Radio v. FCC*, 418 F.2d 1153 (D.C.Cir. 1969), *cert. denied* 409 U.S. 1027 (1972) (*WAIT Radio*)).

³⁸⁹ See *Notice* at ¶¶ 87-98.

non-dominant. The Commission also sought comment on whether certain accounting requirements should sunset when the section 272 separate affiliate requirements sunset for a given carrier in a particular state, and whether achieving pricing flexibility should be a trigger for relaxing accounting and reporting requirements.

206. We remain fully committed to moving forward with Phase 3 of this proceeding. In our view, the question is not whether further deregulation should occur, but rather when. We are skeptical of assertions that these requirements should continue for the indefinite future. As competition continues to develop, the original justifications for our accounting and reporting requirements may no longer be valid. Even apart from the changing nature of the marketplace, there is a substantial question whether some of the rules we retain today impose burdens unnecessarily. And as formerly distinct sectors of the communications industry continue to converge, there is reason to reexamine the justifications for imposing detailed accounting and reporting requirements on only one class of competitors. With these considerations in mind, we now seek to refresh the Phase 3 record in light of the findings made and actions taken today. We look forward to working closely with the states, incumbent carriers, and other interested parties in this endeavor as we continue our examination of these issues.

207. As set forth above in the Phase 2 *Report and Order*, state regulators have articulated current regulatory needs to maintain certain Class A accounts and ARMIS filing requirements for various purposes, including assisting their work in promoting local competition, developing appropriate prices for unbundled network elements, and conducting local ratemaking proceedings. While the Commission also uses some of this information, in administering our current support mechanisms, for example, we identified in the foregoing order a number of accounts and requirements that appear no longer necessary for federal purposes: Account 5040, Private line revenue; Account 5060, Other basic area revenue; Account 1500, Other jurisdictional assets – net; Account 4370, Other jurisdictional liabilities and deferred credits – net; and Account 7910, Income effect of jurisdictional ratemaking differences – net. We believe that, if we cannot identify a federal need for a regulation, we are not justified in maintaining such a requirement at the federal level. At the same time, however, we recognize that an immediate end to such requirements could cause severe problems for state regulators. We would thus like to work with the states to arrange an orderly transition to a mechanism in which states undertake responsibility for collecting this information. We tentatively conclude that we should leave these federal requirements in place for a period of three years to enable states to develop alternative means of gathering this information, after which the federal requirements would terminate. We seek comment on this proposal. Commenters should address whether three years is a sufficient amount of time to transition from federal to state information gathering mechanisms. Commenters should also address whether it would be necessary for each state to set up its own mechanism or whether states might work collectively to set up a mechanism to collect information for multiple states. We understand that some states are required by state law to mirror federal accounting requirements. We ask that those states identify themselves and describe the precise nature of their state statutory constraints. We also seek comment on whether, rather than sunsetting these federal requirements, there are other means to reform federal requirements that serve only state regulatory needs.

208. For our other accounting and reporting requirements, we continue to have a federal need for this information, such as administering our current support mechanisms for universal service and price cap regulation. While we believe that the benefits of continuing these federal requirements, at present, outweigh the potential burdens, our assessment of that calculation is likely to change as technological and market conditions continue to evolve. Although the sufficiency of alternative mechanisms to obtain the requisite information is not

apparent on the record before us, we seek comment on alternatives to our current accounting and reporting requirements. We also encourage our state colleagues to consider alternative sources of such information at the state level. There may well come a time in the relatively near future when we conclude that there is no ongoing federal need to maintain these requirements at the federal level. We seek comment on these tentative views.

209. In addition to addressing the questions previously raised in the Phase 3 *Notice*, we ask commenters to consider whether any of these accounting and reporting requirements should sunset by a date certain, such as three or five years in the future. In particular, should we sunset the remaining Class A accounts by a date certain? Should we maintain our practice of imposing different accounting requirements on classes of carriers based on their size? If so, and we allow Class A carriers to shift to Class B accounting, are there additional accounts that should be eliminated from the Class B system for small and mid-sized carriers by a date certain? Should the requirement to maintain either Class A or Class B accounts be replaced with a rule requiring adherence to generally accepted accounting principles (GAAP)? Should any or all of our ARMIS reporting requirements sunset by a date certain? We encourage commenters to discuss the implications of any accounting reforms they recommend on the appropriate scope of ARMIS reporting obligations. To the extent commenters argue that certain Part 32 or Part 64 rules, or reporting requirements imposed pursuant to 47 U.S.C. § 43.21, should not sunset by a date certain, they should identify with specificity which rules should remain in place and provide a full analysis of the justification for that rule, on a rule-by-rule basis.

210. What would be the advantages and disadvantages of adopting any of these sunset approaches, as opposed to concluding that requirements should be eliminated only upon the attainment of certain indices associated with the development of a competitive marketplace? For example, if we were to eliminate Class A accounts or shift to a policy of relying on GAAP, could we develop accurate inputs for our universal service cost model by relying on specific, ad hoc data requests?³⁹⁰ Moreover, what impact would elimination by a date certain of accounting and reporting rules have on attainment of statutory goals, such as the preservation and advancement of universal service and ensuring that pole attachment rates are just and reasonable? Could we satisfy other federal regulatory needs by making data requests on an as-needed basis and relying on other existing data collection mechanisms, such as the *Local Competition and Broadband Data Gathering Program*? If we ultimately decide not to sunset certain rules, but instead eliminate those rules only upon attainment of certain indices associated with competition, what costs would be imposed on both regulators and the industry by future administrative proceedings to determine whether those triggers have been met, particularly if proceedings were undertaken on a carrier-by-carrier basis?

211. We also seek comment from state commissions and all other interested parties on whether ARMIS information (particularly infrastructure data) would be better captured through the *Local Competition and Broadband Data Gathering Program* rather than in ARMIS, as discussed above in paragraphs 162, 169, and 177. This program seeks to develop the Commission's understanding of the deployment and availability of broadband services and the development of local telephone service competition in order to comply with section 706 of the

³⁹⁰ We intend to initiate a proceeding in the near future to examine how often and to what extent the high-cost model inputs should be revised and updated. To the extent that the data necessary to generate inputs used for the universal service high-cost model may be provided through other means than ARMIS, we intend to consider such alternatives in that proceeding. To the extent we conclude in that proceeding that certain inputs should be eliminated or modified, we would consider the need for corresponding revisions to our accounting and reporting requirements.

1996 Act.³⁹¹ The *Local Competition and Broadband Data Gathering Program* was established for a five-year period, unless the Commission acts to extend it. We seek comment on the costs and benefits associated with collecting infrastructure information through the *Local Competition and Broadband Data Gathering Program* for all affected parties, including potential filers and federal, state, and local regulators. In particular, we seek comment on whether information currently collected in ARMIS 43-07 should instead be collected through the *Local Competition and Broadband Data Gathering Program*, which imposes a reporting obligation on a larger universe of carriers. In addition, we seek comment on collecting such data through the *Local Competition and Broadband Data Gathering Program*, but requiring only the mandatory price cap companies to report. We also seek comment on whether we should require all filers in the *Local Competition and Broadband Data Gathering Program* to report information on hybrid fiber-copper loop interface locations, number of customers served from these interface locations, xDSL customer terminations associated with hybrid fiber-copper loops, and xDSL customer terminations associated with non-hybrid loops. Lastly, we seek comment on whether to gather information on new technologies that indicate how carriers are upgrading the public switched network, e.g., information for switches capable of transmitting ATM protocol, and data on SMDS, internet routers, and frame relay service, through our *Local Competition and Broadband Data Gathering Program*.

212. In addition, we seek comment on eliminating our rules for continuing property records (CPR), specifically section 32.2000(e) and (f).³⁹² As discussed in the foregoing order, our CPR rules largely serve the interests of state regulators.³⁹³ States assert that they have an ongoing need for this information in order to support state ratemaking proceedings. We seek comment on whether there are alternative avenues for states to gather whatever information pertaining to property records they need for state regulatory proceedings. Incumbent LECs are subject to a number of other regulatory constraints and appear to have ample incentives to maintain a detailed inventory of their property.³⁹⁴ Moreover, the record shows that our detailed requirements, which include rigid rules for recording property, impose substantial burdens on incumbent LECs.³⁹⁵ In light of all these factors, we tentatively conclude that we should eliminate our detailed CPR rules in three years. We seek comment on this proposal. Commenters should address whether there are any federal or state regulatory needs served by our CPR rules that cannot be met through alternative mechanisms. We also seek further comment on the costs and burdens of maintaining these CPR rules. Additionally, commenters should address whether three years is too little or too much time for states that rely upon the existence of federal CPR rules to transition to alternative mechanisms. Commenters should include an analysis of the costs and benefits of maintaining the CPR rules for a different length of time.

213. We also seek comment on alternative approaches to streamline our CPR rules. In particular, in earlier comments in this proceeding, Verizon proposed that we should eliminate

³⁹¹ Various issues pertaining to the *Local Competition and Broadband Data Gathering Program*, such as confidentiality, are raised in a pending proceeding. See *Local Competition and Broadband Reporting*, CC Docket No. 99-301, *Second Notice of Proposed Rulemaking*, FCC 01-19 (rel. Jan. 19, 2001).

³⁹² 47 C.F.R. §§ 32.2000(e) and (f).

³⁹³ See paragraph 121.

³⁹⁴ For example, the Foreign Corrupt Practices Act requires companies to maintain adequate accounting records and devise and maintain an adequate system of internal accounting controls. See Qwest Oct. 3, 2001 *ex parte*.

³⁹⁵ Verizon Comments at 8.

most of our CPR requirements, but retain the requirement that property records be (1) subject to internal accounting controls; (2) auditable; (3) equal in the aggregate to the total investment reflected in the financial accounts; and (4) maintained for the life of the property.³⁹⁶ Moreover, Verizon suggested that CPR rules should provide that (1) records be maintained by original cost where appropriate, and otherwise, be maintained using averages or estimates; (2) average costs may be used for plant consisting of a large number of similar units, and units of similar size and type within each specified account may be grouped; and (3) in cases where the actual original cost of property cannot be ascertained, such as pricing for inventory for the initial entry of a continuing property record or the pricing of an acquisition for which the continuing property record has not been maintained, the original cost may be estimated. In cases where estimates are used, any estimate shall be consistent with accounting practices in effect at the time the property was constructed. We seek comment on the advantages and disadvantages associated with this proposal.

214. Finally, we seek to refresh the record on our affiliate transactions rules. We note that these rules were created at a time when all incumbent LECs were subject to rate-of-return regulation.³⁹⁷ To what extent do these rules remain necessary for price cap carriers? Do price cap carriers that have obtained pricing flexibility, and have thus waived low-end formula adjustments, retain any incentive or ability to engage in improper cost-shifting or cross-subsidization? What impact, if any, would elimination of these rules for price cap carriers have on state ratemaking processes? What impact would there be on carriers if we elect to retain these rules?

215. Even if we eliminate some or all of our current affiliate-transactions rules for price-cap carriers, should we maintain those rules, or adopt revised rules, to govern transactions that are subject to section 272 of the Communications Act?³⁹⁸ Section 272(b)(2) requires that the affiliate required by that section maintain “books, records, and accounts in the manner prescribed by the Commission which shall be separate from the books, records, and accounts maintained by the Bell operating company of which it is an affiliate.”³⁹⁹ Section 272(b)(5) requires that the separate affiliate conduct all transactions with the Bell operating company “on an arm’s length basis.”⁴⁰⁰ The nondiscrimination requirement found in section 272(c) requires the BOC to “account for all transactions with an affiliate . . . in accordance with accounting principles designed by or approved by the Commission.”⁴⁰¹ Section 272(e)(4) specifies that the BOC may provide interLATA facilities or services to its interLATA affiliate if such services or facilities are made available to all carriers at the same rates and on the same terms and conditions, and so long as the costs are appropriately allocated.”⁴⁰² What would be the advantages or disadvantages of applying one set of rules to transactions between BOCs and their section 272 affiliates and another set of rules (or no rules) to other transactions between incumbent LECs and other types of

³⁹⁶ *Id.*

³⁹⁷ Our affiliate transactions rules were adopted in 1987 to protect ratepayers of regulated telecommunications services from bearing the costs and risks associated with a carrier’s nonregulated activities. *See Joint Cost Order*. The Commission revised the affiliate transactions rules to implement the statutory prohibitions against cross-subsidization in the 1996 Act. *See Accounting Safeguards Order*, 47 C.F.R. § 32.27.

³⁹⁸ 47 U.S.C. § 272.

³⁹⁹ 47 U.S.C. § 272(b)(2).

⁴⁰⁰ 47 U.S.C. § 272(b)(5).

⁴⁰¹ 47 U.S.C. § 272(c).

⁴⁰² 47 U.S.C. § 272(e)(4).

affiliates? How would this be implemented in situations where an affiliate engages in some activities that are subject to section 272 and other activities that are not?

216. Even if we decline to make broad changes to our affiliate transactions rules, we may wish to adopt additional minor reforms along the lines of the those in the foregoing Phase II Report and Order. In particular, we seek further comment on the proposal of USTA and BellSouth to modify the centralized service exception to the affiliate transactions rules. That rule states that all services received by a carrier from an affiliate that exists solely to provide services to members of the carrier's corporate family shall be recorded at cost. For these types of affiliates, no fair market valuations are required. USTA and BellSouth have argued that this rule is too restrictive, imposes large costs on carriers to comply, and can cause an affiliate to lose its overall exemption from fair market valuation of all of its services if one service is provided outside of the corporate family.⁴⁰³ USTA and BellSouth argue that, rather than applying the exception on an affiliate-by-affiliate basis, the exception should be applied on a service-by-service basis. This would allow carriers to record services provided solely within the corporate family at fully distributed cost without fair market valuation, whether or not the affiliate also provided other services outside the corporate family.

217. We seek comment on a possible *de minimis* exception that would mitigate some of the harsh consequences of our current rules raised by BellSouth.⁴⁰⁴ We ask commenters to address whether the Commission should adopt a threshold of \$500,000 for services provided by an affiliate outside the corporate family. If the Commission adopted such a threshold, an affiliate could provide up to \$500,000 in services outside the corporate family without causing other services it provides solely to the corporate family to undergo fair market valuation. We also ask if there is a different appropriate dollar value threshold. Alternatively, we seek comment on whether the exception should be based on a percentage of transactional volume of the service. For example, if a service is provided outside the corporate family and the transactional volume amounts to only five or ten percent of all of the affiliate's services volume, should transactions within the corporate family remain exempt from the fair market valuation requirement? If the Commission adopts a percentage threshold, should that threshold be five percent, ten percent, or some other percentage?

B. Conforming Amendments to Part 36 Separations Rules (CC Docket No. 80-286)

218. The revisions to the Chart of Accounts described in this Report and Order affect our Part 36 jurisdictional separations rules in minor respects, as our Part 36 rules are defined in terms of existing accounts. Most of the Part 32 revisions in the attached Order consolidate Class A accounts to the Class B level. We tentatively conclude that the elimination of Class A summary accounts will require clarifying revisions to Part 36. For example, the elimination of Account 6110, Network support expense, from Class A accounting will require sections 36.310 and 36.311 of the Commission's rules to be revised to reflect Network support expenses as the sum of accounts 6112, 6113, and 6114. In contrast, Class B accounting will retain Account 6110. Therefore sections 36.310 and 36.311 will remain intact for Class B carriers, but must be revised to clarify that the use of Account 6110 is for Class B carriers only.⁴⁰⁵

⁴⁰³ See USTA Comments at 16-17; BellSouth Sept. 6, 2001 *ex parte* at 2.

⁴⁰⁴ See BellSouth Sept. 21, 2001 *ex parte*.

⁴⁰⁵ See 47 C.F.R. §§ 36.310-311. Other sections of Part 36 affected include those sections currently referring to the following accounts; 6120, 6210, 6230, 6310, 6410, 6510, 6530, 6610, and 7200. See 47

219. We also tentatively conclude that other changes to Part 36 are required as a result of the elimination of Accounts 2215, 3500, 3600, 5000, 5080, 5084, and 6710 from both Class A and Class B accounting.⁴⁰⁶ The Part 36 sections referencing these accounts will require revisions to reflect the respective accounts now utilized. We propose to revise, wherever necessary, those Part 36 sections affected by the revisions adopted in this Report and Order. We seek comment on these proposed conforming amendments.

220. As set forth above, we adopt subaccounts for five existing accounts: 2212, Digital electronic switching; 2232, Circuit equipment, 6212, Digital electronic switching expense; 6232, Circuit equipment expense; and 6620, Services. For now, these accounts will continue to be separated in accordance with current Part 36 rules, including the requirements of the *Separations Freeze Order*, and are subject to the conforming Part 36 amendments proposed in the preceding paragraph. We seek comment on whether the creation of subaccounts warrants any modification to the separations treatment of these accounts.

221. Commenters should also suggest any additional particular Part 36 rules that should be revised, how they should be revised, and which Part 32 modification in this Order forms the basis for each suggested revision. We also seek comment on interplay of the recent *Separations Freeze Order* with any suggested revisions.⁴⁰⁷

222. Finally, although we believe that the effect of the revisions to the Chart of Accounts will have merely ministerial impact on our Part 36 rules, we welcome input from the Federal-State Joint Board on Separations on these issues.⁴⁰⁸

V. PROCEDURAL ISSUES

A. Ex Parte Presentations

223. This is a permit but disclose rulemaking proceeding. Ex parte presentations are permitted, except during the Sunshine Agenda period, provided they are disclosed as provided in the Commission's rules. *See generally* 47 C.F.R. §§ 1.1202, 1.1203, and 1.1206.

B. Paperwork Reduction Act Analysis

224. *Final Paperwork Reduction Act Analysis.* The decision herein has been analyzed with respect to the Paperwork Reduction Act of 1995, Pub. L. 104-13, and found to impose new or modified recordkeeping requirements or burdens on the public. Implementation of these new

C.F.R. §§ 36.321, 331, 341, 351, 352, 353, 352, 371, 372, and 411. Elimination of these accounts from Class A accounting will require these Part 36 sections to be updated in accordance with the Class A accounting changes adopted in this Report and Order. The current Part 36 use of these accounts will remain for Class B carriers, however, revisions to Part 36 are required to reflect that these accounts are for Class B carriers only.

⁴⁰⁶ See 47 C.F.R. §§ 36.121, 124, 125, 201, 211, 212, 213, 501, and 505.

⁴⁰⁷ On May 22, 2001, the Commission adopted an interim freeze of the Part 36 category relationships and jurisdictional cost allocation factors for price cap carriers and allocation factors only for rate-of-return carriers. Jurisdictional Separations and Referral to the Federal-State Joint Board, CC Docket No. 80-286, *Report and Order*, FCC 01-162 (rel. May 22, 2001) (*Separations Freeze Order*).

⁴⁰⁸ Should commenters identify impacts that would require changes to Part 36 beyond merely ministerial revisions, we would refer such issues to the Joint Board for its consideration

or modified reporting or recordkeeping requirements will be subject to approval by the Office of Management and Budget (OMB) and will go into effect upon announcement in the Federal Register of OMB approval.

C. Regulatory Flexibility Act

225. As required by the Regulatory Flexibility Act (RFA),⁴⁰⁹ the Commission has prepared both a Final Regulatory Flexibility Analysis (FRFA) and an Initial Regulatory Flexibility Analysis (IRFA) of the possible significant economic impact on small entities by the policies and rules proposed in this Further Notice of Proposed Rulemaking and the rules adopted in this Report and Order. Both the FRFA and the IRFA are set forth in Appendix H. Written public comments are requested on the IRFA. These comments must be filed in accordance with the same filing deadlines for comments on the rest of this Further Notice of Proposed Rulemaking and they must have a separate and distinct heading, designating the comments as responses to the IRFA. The Consumer Information Bureau, Reference Information Center, will send a copy of this Report and Order and Further Notice of Proposed Rulemaking, including the FRFA and IRFA, to the Chief Counsel for Advocacy of the Small Business Administration.⁴¹⁰ In addition, the Report and Order and Further Notice of Proposed Rulemaking and FRFA and IRFA (or summaries thereof) will be published in the Federal Register.⁴¹¹

D. Comment Filing Procedures

226. Pursuant to sections 1.415 and 1.419 of the Commission's rules, 47 C.F.R. §§ 1.415, 1.419, interested parties may file comments on or before sixty days from date of publication in the Federal Register (for issue A) and thirty days from date of publication in the Federal Register (for issue B), and reply comments on or before ninety days from date of publication in the Federal Register (for issue A) and forty-five days from date of publication in the Federal Register (for issue B). Comments may be filed using the Commission's Electronic Comment Filing System (ECFS) or by filing paper copies.⁴¹²

227. Comments filed through the ECFS can be sent as an electronic file via the Internet to <<http://www.fcc.gov/e-file/ecfs.html>>. Generally, only one copy of an electronic submission must be filed. If multiple docket or rulemaking numbers appear in the caption of this proceeding, however, commenters must transmit one electronic copy of the comments to each docket or rulemaking number referenced in the caption. In completing the transmittal screen, commenters should include their full name, Postal Service mailing address, and the applicable docket or rulemaking number. Parties may also submit an electronic comment by Internet e-mail. To get filing instructions for e-mail comments, commenters should send an e-mail to ecfs@fcc.gov, and should include the following words in the body of the message, "get form <your e-mail address.>" A sample form and directions will be sent in reply.

⁴⁰⁹ See 5 U.S.C. § 603. The RFA, *see* 5 U.S.C. § 601 *et seq.*, has been amended by the Contract With America Advancement Act of 1996, Pub. L. No. 104-121, 110 Stat. 847 (1996) (CWAAA). Title II of the CWAAA is the Small Business Regulatory Enforcement Fairness Act of 1996 (SBREFA).

⁴¹⁰ See 5 U.S.C. § 603(a).

⁴¹¹ *Id.* §§ 603(a), 604(b).

⁴¹² See Electronic Filing of Documents in Rulemaking Proceedings, 63 Fed. Reg. 24,121 (1998).

228. Parties who choose to file by paper must file an original and four copies of each filing. If more than one docket or rulemaking number appear in the caption of this proceeding, commenters must submit two additional copies for each additional docket or rulemaking number. All filings must be sent to the Commission's Secretary, Magalie Roman Salas, Office of the Secretary, Federal Communications Commission, 445 12th Street, S.W., Washington, D.C. 20554.

229. Parties who choose to file by paper should also submit their comments on diskette. These diskettes should be submitted to: Ernestine Creech, Accounting Safeguards Division, 445 12th Street, S.W., Washington, D.C. 20554. Such a submission should be on a 3.5-inch diskette formatted in an IBM compatible format using Word or compatible software. The diskette should be accompanied by a cover letter and should be submitted in "read only" mode. The diskette should be clearly labeled with the commenter's name, proceeding (including the docket number, in this case CC Docket Nos. 00-199, 99-301, and 80-286, type of pleading (comment or reply comment), date of submission, and the name of the electronic file on the diskette. The label should also include the following phrase "Disk Copy - Not an Original." Each diskette should contain only one party's pleadings, preferably in a single electronic file. In addition, commenters must send diskette copies to the Commission's copy contractor, Qualex International, Portals II, 445 12th Street, SW, Room CY-B402, Washington, DC, 20554.

230. Written comments by the public on the proposed and/or modified information collections are due on or before thirty days after the date of publication in the Federal Register. Written comments must be submitted by the Office of Management and Budget (OMB) on the proposed and/or modified information collections on or before 60 days after date of publication in the Federal Register. In addition to filing comments with the Secretary, a copy of any comments on the information collections contained herein should be submitted to Judy Boley, Federal Communications Commission, Room 1-C804, 445 12th Street, S.W., Washington, DC 20554, or via the Internet to jboley@fcc.gov and to Edward Springer, OMB Desk Officer, 10236 NEOB, 725 - 17th Street, N.W., Washington, D.C. 20503.

VI. ORDERING CLAUSES

231. Accordingly, IT IS ORDERED that, pursuant to sections 1, 4, 201-205, 215, and 218-220 of the Communications Act of 1934, as amended, 47 U.S.C. sections 151, 154, 201-205, 215, and 218-220, Parts 32 and 64 of the Commission's rules, 47 C.F.R. Parts 32 and 64, are amended as described above and in Appendix F below.

232. IT IS FURTHER ORDERED that, pursuant to section 220(g) of the Communications Act of 1934, as amended, 47 U.S.C. § 220(g), changes to our Part 32, System of Accounts, adopted in this Report and Order shall take effect six months after publication in the Federal Register following OMB approval, unless a notice is published in the Federal Register stating otherwise. We will, however, permit carriers to implement Part 32 accounting changes as of January 1, 2001.

233. IT IS FURTHER ORDERED that, pursuant to the authority contained in sections 4(i), 4(j), 11, 201(b), 303(r), and 403 of the Communications Act of 1934, as amended, 47 U.S.C. sections 154(i), 154(j), 161, 201(b), 303(r), and 403, this Further Notice of Proposed Rulemaking in CC Docket Nos. 80-286, 99-301, and 00-199 IS ADOPTED.

234. IT IS FURTHER ORDERED that the proceeding in CC Docket No. 97-212 is TERMINATED.

235. IT IS FURTHER ORDERED THAT, pursuant to the authority contained in sections 1, 4(i), 4(j), 201-205, 215, and 218-220 of the Communications Act of 1934, as amended, 47 U.S.C. sections 151, 154(i), 154(j), 201-205, 215, and 218-220, that FCC Report 43-04, the Separations and Access Report IS REVISED, as set forth above and in Appendix G to this Report and Order, effective for filings due April 1, 2002.

236. IT IS FURTHER ORDERED THAT, pursuant to the authority contained in sections 1, 4(i), 4(j), 201-205, 215, and 218-220 of the Communications Act of 1934, as amended, 47 U.S.C. sections 151, 154(i), 154(j), 201-205, 215, and 218-220, that revisions to FCC Report 43-01, the Annual Summary Report; FCC Report 43-02, the USOA Report; FCC Report 43-03, the Joint Cost Report; FCC Report 43-07, the Infrastructure Report; and 43-08, the Operating Data Report as set forth above, shall be effective for filings due April 1, 2003.

237. IT IS FURTHER ORDERED THAT, pursuant to the authority contained in section 0.291 of the Commission's rules, 47 C.F.R. § 0.291, that the Common Carrier Bureau IS DELEGATED authority to implement all changes to ARMIS reporting as above set forth.

238. IT IS FURTHER ORDERED that the Commission's Consumer Information Bureau, Reference Information Center, SHALL SEND a copy of this Report and Order and Further Notice of Proposed Rulemaking, including the two Regulatory Flexibility Analyses, to the Chief Counsel for Advocacy of the Small Business Administration.

FEDERAL COMMUNICATIONS COMMISSION

Magalie Roman Salas
Secretary

APPENDIX A – Parties Filing Comments and Reply Comments**Parties filing initial comments in CC Docket No. 00-199**

ALLTEL Communications Corporation (ALLTEL)
AT&T Corporation (AT&T)
BellSouth Corporation (BellSouth)
Cincinnati Bell Telephone Company (CBT)
Florida Public Service Commission (Florida)
General Services Administration (GSA)
Idaho Public Service Commission (Idaho)
Iowa Telecommunications Services, Inc. (Iowa Telecom)
Independent Telephone and Telecommunications Alliance (ITTA)
Maryland Public Service Commission (Maryland)
Montana Public Service Commission (Montana)
National Association of Regulatory Utility Commissioners (NARUC)
Nebraska Public Service Commission (Nebraska)
New York State Department of Public Service (New York)
North Carolina Utilities Commission – Public Staff (North Carolina Public Staff)
Ohio Consumers' Counsel and the National Association of State Utility Consumer Advocates (Ohio CC and NASUCA)
Public Utility Commission of Oregon (Oregon)
Qwest Corporation (Qwest)
Roseville Telephone Company (Roseville)
Rural Utilities Service (RUS)
Sprint Corporation (Sprint)
TDS Telecommunications Corporation (TDS)
United States Telecom Association (USTA)
Utah Public Service Commission and the Utah Division of Public Utilities (Utah)
Verizon Communications, Inc. (Verizon)
Washington Utilities and Transportation Commission (Washington)
Public Service Commission of Wisconsin (Wisconsin)
WorldCom, Inc. (WorldCom)
Wyoming Public Service Commission (Wyoming)

Parties filing reply comments in CC Docket No. 00-199

Regulatory Commission of Alaska (Alaska)
ALLTEL
Association for Local Telecommunications Services (ALTS)
AT&T
BellSouth
California Public Utilities Commission (California)
Federal-State Joint Board on Separations
GSA
Illinois Commerce Commission (Illinois)
ITTA
NARUC
National Cable Television Association (NCTA)

Ohio CC and NASUCA
Public Utilities Commission of Nevada (Nevada)
Qwest
Sprint
USTA
Verizon
Virginia State Corporation Commission (Virginia)
WorldCom
XO Communications, Inc. (XO Communications)

Parties filing comments to June 8 Public Notice

BellSouth
GSA
New York
Ohio Consumer's Counsel (Ohio CC)
Oregon
RUS
SBC Communications, Inc. (SBC)
Sprint
USTA
Verizon
Wisconsin
WorldCom

Parties filing reply comments to June 8 Public Notice

GSA
New Hampshire Public Utilities Commission (New Hampshire)
Ohio CC
Sprint
USTA
Verizon

Ex parte filings

ALTS and XO Communications, July 26, 2001
BellSouth, August 2, 2001
Washington, August 16, 2001
Illinois, August 24, 2001
Nebraska, August 27, 2001
South Dakota Public Utilities Commission, August 27, 2001 (South Dakota)
AT&T, August 29, 2001
New Mexico Public Regulation Commission, August 30, 2001 (New Mexico)
NCTA, August 31, 2001
North Dakota Public Service Commission, August 31, 2001 (North Dakota)
Utah, August 31, 2001
North Carolina Utilities Commission, September 4, 2001 (North Carolina)
NARUC, September 6, 2001
Florida, September 6, 2001
Maryland, September 7, 2001

New Hampshire, September 7, 2001

Qwest, September 10, 2001

Michigan Public Service Commission, September 14, 2001 (Michigan)

Indiana Utility Regulatory Commission, September 21, 2001 (Indiana)

NARUC, September 26, 2001

USTA, September 28, 2001

Kansas Corporation Commission, October 2, 2001 (Kansas)

California, October 2, 2001

Competitive Telecommunications Association, October 3, 2001 (CompTel)

Michigan, October 3, 2001

239. NASUCA, October 4, 2001

NARUC, October 4, 2001

APPENDIX B – List of eliminated Class A accounts

1130	Cash	4020	Notes payable
1140	Special cash deposits	4030	Advance billing and payments
1150	Working cash advances	4050	Current maturities—long-term debt
1160	Temporary investments	4060	Current maturities—capital leases
1180	Telecommunications accounts receivable	4120	Other accrued liabilities
1181	Accounts receivable allowance—telecommunications	4210	Funded debt
1190	Other accounts receivable	4220	Premium on long-term debt
1191	Accounts receivable allowance—other	4230	Discount on long-term debt
1200	Notes receivable	4240	Reacquired debt
1201	Notes receivable allowance	4250	Obligations under capital leases
1210	Interest and dividends receivable	4260	Advances from affiliated companies
1290	Prepaid rents	4270	Other long-term debt
1300	Prepaid taxes	4310	Other long-term liabilities
1310	Prepaid insurance	4360	Other deferred credits
1320	Prepaid directory expenses	5000	Basic local service revenue
1330	Other prepayments	5002	Optional extended area revenue
1401	Investment in affiliated companies	5003	Cellular mobile revenue
1402	Investments in nonaffiliated companies	5004	Other mobile services revenue
1406.1	Permanent investment	5050	Customer premises revenue
1406.2	Receivable/payable	5069	Other local exchange revenue
1406.3	Current net income or loss		settlements
1407	Unamortized debt issuance expense	5080	Network access revenue
1408	Sinking funds	5084	State access revenue
1437	Deferred tax regulatory asset	5110	Unidirectional long distance revenue
1439	Deferred charges	5111	Long distance inward-only revenue
2123.1	Office support equipment	5112	Long distance outward-only revenue
2123.2	Company communications equipment	5120	Long distance private network revenue
2215	Electro-mechanical switching	5121	Subvoice grade long distance private network revenue
	Step-by-step switching	5122	Voice grade long distance private network revenue
	Crossbar switching	5123	Audio program grade long distance private network revenue
	Other electro-mechanical switching	5124	Video program grade long distance private network revenue
2231.1	Satellite and earth station facilities	5125	Digital transmission long distance private network revenue
2231.2	Other radio facilities	5126	Long distance private network switching revenue
2425	Deep sea cable	5128	Other long distance private network revenue
	Nonmetallic cable	5129	Other long distance private network revenue settlements
	Metallic cable	5160	Other long distance revenue
3420	Accumulated amortization—leasehold improvement	5169	Other long distance revenue settlements
3500	Accumulated amortization—intangible		
3600	Accumulated amortization—other		
4010	Accounts payable		

5230	Directory revenue	6725	Legal
5240	Rent revenue	6726	Procurement
5250	Corporate operations revenue	6727	Research and development
5260	Miscellaneous revenue	6728	Other general and administrative
5261	Special billing arrangements revenue	7110	Income from custom work
5262	Customer operations revenue	7130	Return from nonregulated use of regulated facilities
5263	Plant operations revenue	7140	Gains and losses from foreign exchange
5264	Other incidental regulated revenue	7150	Gains and losses from the disposition of land and artworks
5269	Other revenue settlements	7160	Other operating gains and losses
5270	Carrier billing and collection revenue	7200	Operating taxes
5301	Uncollectible revenue-telecom	7310	Dividend income
5302	Uncollectible revenue-other	7320	Interest income
6110	Network support expense	7330	Income from sinking and other funds
6120	General support expenses	7340	Allowance for funds used during construction
6210	Central office switching expenses	7350	Gains and losses from the disposition of certain property
6215	Electro-mechanical expense	7360	Other nonoperating income
	Step-by-step switching	7370	Special charges
	Crossbar switching	7410	Nonoperating Investment tax credit—net
	Other electro-mechanical switching	7420	Nonoperating federal income taxes
6230	Central office transmission expense	7430	Nonoperating state and local income taxes
6231.1	Satellite and earth station facilities	7440	Nonoperating other taxes
6231.2	Other radio facilities	7450	Provision for deferred nonoperating income taxes—net
6310	Information origination/termination expense	7510	Interest on funded debt
6410	Cable and wire facilities expense	7520	Interest expense—capital leases
6425	Deep sea cable expense	7530	Amortization of debt issuance expense
	Nonmetallic cable	7540	Other interest deductions
	Metallic cable	7610	Extraordinary income credits
6510	Other property, plant and equipment expenses	7620	Extraordinary income charges
6530	Network operations expenses	7630	Current income tax effect of extraordinary items—net
6561	Depreciation expense— Telecommunications plant in service	7640	Provision for deferred income tax effect of extraordinary items—net
6562	Depreciation expense—property held for future telecommunications use		
6563	Amortization expense—tangible		
6564	Amortization expense—intangible		
6565	Amortization expense—other		
6610	Marketing		
6612	Sales		
6621	Call completion services		
6622	Number services		
6623	Customer services		
6710	Executive and planning		
6711	Executive		
6712	Planning		
6721	Accounting and finance		
6722	External relations		
6723	Human resources		
6724	Information management		

APPENDIX C – Revised list of Class A accounts

1120 Cash and equivalents	2351 Public telephone terminal equipment
1170 Receivables	2362 Other terminal equipment
1171 Allowance for doubtful accounts	2411 Poles
1220 Inventories	2421 Aerial cable
1220.1 Materials and supplies	Nonmetallic
1220.2 Property held for sale or lease	Metallic
1280 Prepayments	2422 Underground cable
1350 Other current assets	Nonmetallic
1406 Nonregulated investments	Metallic
1410 Other noncurrent assets	2423 Buried cable
1438 Deferred maintenance, retirements, and other deferred charges	Nonmetallic
1500 Other jurisdictional assets – net	Metallic
2001 Telecommunications plant in service	2424 Submarine and deep sea cable
2002 Property held for future telecommunications use	Nonmetallic
2003 Telecommunications plant under construction	Metallic
2005 Telecommunications plant adjustment	2426 Intrabuilding network cable
2006 Nonoperating plant	Nonmetallic
2007 Goodwill	Metallic
2111 Land	2431 Aerial wire
2112 Motor vehicles	2441 Conduit systems
2113 Aircraft	2681 Capital leases
2114 Tools and other work equipment	2682 Leasehold improvements
2121 Buildings	2690 Intangibles
2122 Furniture	Network software
2123 Office equipment	General purpose computer software
2124 General purpose computers	3100 Accumulated depreciation
2211 Non-digital switching	3200 Accumulated depreciation--held for future telecommunications use
2212 Digital electronic switching	3300 Accumulated depreciation nonoperating
2212.1 Circuit	3410 Accumulated amortization—capitalized leases
2212.2 Packet	4000 Current accounts and notes payable
2220 Operator systems	4040 Customers' deposits
2231 Radio systems	4070 Income taxes--accrued
2232 Circuit equipment	4080 Other taxes--accrued
2232.1 Electronic	4100 Net current deferred operating income
2232.2 Optical	taxes
2311 Station apparatus	
2321 Customer premises wiring	
2341 Large private branch exchanges	

4110 Net current deferred nonoperating income	6121 Land and building expenses
taxes	6122 Furniture and artworks expense
4130 Other current liabilities	6123 Office equipment expense
4200 Long term debt and funded debt	6124 General purpose computers expense
4300 Other long term liabilities and deferred	6211 Non-digital switching expense
credits	6212 Digital electronic switching expense
4320 Unamortized operating investment tax	6212.1 Circuit
credits--net	6212.2 Packet
4330 Unamortized nonoperating investment tax	6220 Operator systems expense
credits--net	6231 Radio systems expense
4340 Net noncurrent deferred operating income	6232 Circuit equipment expense
taxes	6232.1 Electronic
4341 Net deferred tax liability adjustments	6232.2 Optical
4350 Net noncurrent deferred nonoperating	6311 Station apparatus expense
income taxes	6341 Large private branch exchange expense
4361 Deferred tax regulatory adjustments—net	6351 Public telephone terminal equipment expense
4370 Other jurisdictional liabilities and deferred	6362 Other terminal equipment expense
credits—net	6411 Poles expense
4510 Capital stock	6421 Aerial cable expense
4520 Additional paid-in capital	Nonmetallic
4530 Treasury stock	Metallic
4540 Other capital	6422 Underground cable expense
4550 Retained earnings	Nonmetallic
5001 Basic area revenue	Metallic
5040 Private line revenue	6423 Buried cable expense
5060 Other basic area revenue	Nonmetallic
5081 End user revenue	Metallic
5082 Switched access revenue	6424 Submarine and deep sea cable expense
5083 Special access revenue	Nonmetallic
5105 Long distance message revenue	Metallic
5200 Miscellaneous revenue	6426 Intrabuilding network cable expense
5280 Nonregulated operating revenue	Nonmetallic
5300 Uncollectible revenue	Metallic
6112 Motor vehicle expense	6431 Aerial wire expense
6113 Aircraft expense	6441 Conduit systems expense
6114 Tools and other work equipment expense	6511 Property held for future telecommunications use expense
	6512 Provisioning expense
	6531 Power expense

6532 Network administration expense
6533 Testing expense
6534 Plant operations administration
expense
6535 Engineering expense
6540 Access expense
6560 Depreciation and amortization
expenses
6611 Product management and sales
6613 Product advertising
6620 Services
 6620.1 Wholesale
 6620.2 Retail
6720 General and administrative
6790 Provision for uncollectible notes
 receivable
7100 Other operating income and
expenses
7210 Operating investment tax credits –
net
7220 Operating Federal income taxes
7230 Operating state and local income
taxes
7240 Operating other taxes
7250 Provision for deferred operating
income
 taxes – net
7300 Nonoperating income and expense
7400 Nonoperating taxes
7500 Interest and related items
7600 Extraordinary items
7910 Income effect of jurisdictional
ratemaking
 differences – net
7990 Nonregulated net income

APPENDIX D – Revised list of Class B accounts

1120 Cash and equivalents	4080 Other taxes—accrued
1170 Receivables	4100 Net current deferred operating income
1171 Allowance for doubtful accounts	taxes
1220 Inventories	4110 Net current deferred nonoperating income
1220.1 Materials and supplies	taxes
1220.2 Property held for sale or lease	4130 Other current liabilities
1280 Prepayments	4200 Long term debt and funded debt
1350 Other current assets	4300 Other long term liabilities and deferred credits
1406 Nonregulated investments	4320 Unamortized operating investment tax
1410 Other noncurrent assets	credits—net
1438 Deferred maintenance and retirements	4330 Unamortized nonoperating investment tax
1500 Other jurisdictional assets—net	credits—net
2001 Telecommunications plant in service	4340 Net noncurrent deferred operating income
2002 Property held for future telecommunications use	taxes
2003 Telecommunications plant under construction	4341 Net deferred tax liability adjustments
2005 Telecommunications plant adjustment	4350 Net noncurrent deferred nonoperating income taxes
2006 Nonoperating plant	4361 Deferred tax regulatory adjustments—net
2007 Goodwill	4370 Other jurisdictional liabilities and deferred credits—net
2110 Land and support assets	4510 Capital stock
2210 Central office switching	4520 Additional paid-in capital
2220 Operator systems	4530 Treasury stock
2230 Central office—transmission	4540 Other capital
2310 Information origination/termination	4550 Retained earnings
2410 Cable and wire facilities	5000 Basic local service revenue
2680 Amortizable tangible assets	5081 End user revenue
2690 Intangibles	5082 Switched access revenue
3100 Accumulated depreciation	5083 Special access revenue
3200 Accumulated depreciation--held for future telecommunications use	5105 Long distance message revenue
3300 Accumulated depreciation—nonoperating	5200 Miscellaneous revenue
3410 Accumulated amortization—capitalized leases	5280 Nonregulated operating revenue
4000 Current accounts and notes payable	5300 Uncollectible revenue
4040 Customers' deposits	6110 Network support expense
4070 Income taxes—accrued	

6120 General support expenses	6620 Services
6210 Central office switching expenses	6720 General and administrative
6220 Operator systems expense	6790 Provision for uncollectible notes receivable
6230 Central office transmission expense	7100 Other operating income and expenses
6310 Information origination/termination expense	7200 Operating taxes
6410 Cable and wire facilities expenses	7300 Nonoperating income and expense
6510 Other property, plant and equipment expenses	7400 Nonoperating taxes
6530 Network operations expenses	7500 Interest and related items
6540 Access expense	7600 Extraordinary items
6560 Depreciation and amortization expenses	7910 Income effect of jurisdictional ratemaking differences—net
6610 Marketing	7990 Nonregulated net income

APPENDIX E – Data for High-Cost Model Inputs Purposes

2111 Land
2112 Motor vehicles
2113 Aircraft
2114 Tools and other work equipment
2121 Buildings
2122 Furniture
2123 Office equipment
2124 General purpose computers

2212 Digital electronic switching
2220 Operator systems
2232 Circuit equipment
2362 Other terminal equipment

2411 Poles
2421 Aerial cable
 Nonmetallic
 Metallic
2422 Underground cable
 Nonmetallic
 Metallic
2423 Buried cable
 Nonmetallic
 Metallic
2426 Intrabuilding network cable
 Nonmetallic
 Metallic
2441 Conduit systems

6112 Motor vehicle expense
6113 Aircraft expense
6114 Tools and other work equipment expense
6121 Land and building expenses
6122 Furniture and artworks expense
6123 Office equipment expense
6124 General purpose computers expense

6212 Digital electronic switching expense
6232 Circuit equipment expense

6411 Poles expense
6421 Aerial cable expense
 Nonmetallic

- Metallic
- 6422 Underground cable expense
 - Nonmetallic
 - Metallic
- 6423 Buried cable expense
 - Nonmetallic
 - Metallic
- 6426 Intrabuilding network cable expense
 - Nonmetallic
 - Metallic
- 6441 Conduit systems expense
- 6511 Property held for future telecommunications use expense
- 6512 Provisioning expense
- 6531 Power expense
- 6532 Network administration expense
- 6533 Testing expense
- 6534 Plant operations administration expense
- 6535 Engineering expense
- 6613 Product advertising
- 6620 Services
 - 6620.1 Wholesale
 - 6620.2 Retail
- 6720 General and administrative

APPENDIX F – FINAL RULES

Part 32 of title 47 of the C.F.R. is amended as follows:

PART 32 – UNIFORM SYSTEM OF ACCOUNTS FOR TELECOMMUNICATIONS COMPANIES

The authority citation for part 32 continues to read as follows:

Authority: 47 U.S.C. 154(I), and 154(j) and 220 as amended, unless otherwise noted.

Table of Contents, Part 32—Uniform System of Accounts for Telecommunications Companies is revised to read as follows:

PART 32—UNIFORM SYSTEM OF ACCOUNTS FOR TELECOMMUNICATIONS COMPANIES

Subpart A—Preface

Sec.

- 32.1 Background.
- 32.2 Basis of the accounts.
- 32.3 Authority
- 32.4 Communications Act.

Subpart B—General Instructions

- 32.11 Classification of companies.
- 32.12 Records.
- 32.13 Accounts—general.
- 32.14 Regulated accounts.
- 32.15 [Reserved]
- 32.16 Changes in accounting standards.
- 32.17 Interpretation of accounts.
- 32.18 Waivers.
- 32.19 Address for reports and correspondence.
- 32.20 Numbering convention.
- 32.21 Sequence of accounts.
- 32.22 Comprehensive interperiod tax allocation.
- 32.23 Nonregulated activities.
- 32.24 Compensated absences.
- 32.25 Unusual items and contingent liabilities.
- 32.26 Materiality.
- 32.27 Transactions with affiliates.

Subpart C—Instructions for Balance Sheet Accounts

- 32.101 Structure of the balance sheet accounts.
- 32.102 Nonregulated investments.

- 32.103 Balance sheet accounts for other than regulated-fixed assets to be maintained.
- 32.1120 Cash and equivalents.
- 32.1170 Receivables.
- 32.1171 Allowance for doubtful accounts.
- 32.1220 Inventories.
- 32.1280 Prepayments.
- 32.1350 Other current assets.
- 32.1406 Nonregulated investments.
- 32.1410 Other noncurrent assets.
- 32.1438 Deferred maintenance and retirements.
- 32.1500 Other jurisdictional assets – net.
- 32.2000 Instructions for telecommunications plant accounts.
- 32.2001 Telecommunications plant in service.
- 32.2002 Property held for future telecommunications use.
- 32.2003 Telecommunications plant under construction.
- 32.2005 Telecommunications plant adjustment
- 32.2006 Nonoperating plant
- 32.2007 Goodwill.
- 32.2110 Land and support assets.
- 32.2111 Land.
- 32.2112 Motor vehicles.
- 32.2113 Aircraft.
- 32.2114 Tools and other work equipment.
- 32.2121 Buildings.
- 32.2122 Furniture.
- 32.2123 Office equipment.
- 32.2124 General purpose computers.
- 32.2210 Central office switching.
- 32.2211 Non-digital switching.
- 32.2212 Digital electronic switching.
- 32.2220 Operator systems.
- 32.2230 Central office—transmission.
- 32.2231 Radio systems.

32.2232 Circuit equipment
 32.2310 Information origination/termination.
 32.2311 Station apparatus.
 32.2321 Customer premises wiring.
 32.2341 Large private branch exchanges.
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 32.2362 Other terminal equipment
 32.2410 Cable and wire facilities.
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 32.2422 Underground cable.
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 32.2424 Submarine and deep sea cable.
 32.2426 Intrabuilding network cable.
 32.2431 Aerial wire.
 32.2441 Conduit systems.
 32.2680 Amortizable tangible assets.
 32.2681 Capital leases.
 32.2682 Leasehold improvements.
 32.2690 Intangibles.
 32.3000 Instructions for balance sheet
 accounts—Depreciation and
 amortization.
 32.3100 Accumulated depreciation.
 32.3200 Accumulated depreciation--held for
 future telecommunications use.
 32.3300 Accumulated depreciation
 nonoperating.
 32.3410 Accumulated amortization—capitalized
 leases.
 32.3999 Instructions for balance sheet
 accounts—liabilities and stockholders'
 equity.
 32.4000 Current accounts and notes payable.
 32.4040 Customers' deposits.
 32.4070 Income taxes—accrued.
 32.4080 Other taxes—accrued.
 32.4100 Net current deferred operating income
 taxes.
 32.4110 Net current deferred nonoperating
 income taxes.
 32.4130 Other current liabilities
 32.4200 Long term debt and funded debt
 32.4300 Other long term liabilities and deferred
 credits.
 32.4320 Unamortized operating investment tax
 credits—net.
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 tax credits—net.
 32.4340 Net noncurrent deferred operating
 income taxes.
 32.4341 Net deferred tax liability adjustments.
 32.4350 Net noncurrent deferred nonoperating
 income taxes.
 32.4361 Deferred tax regulatory adjustments—
 net.

32.4370 Other jurisdictional liabilities and
 deferred credits—net.
 32.4510 Capital stock.
 32.4520 Additional paid-in capital.
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 32.4540 Other capital.
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 32.5001 Basic area revenue.
 32.5040 Private line revenue.
 32.5060 Other basic area revenue.
 32.5081 End user revenue.
 32.5082 Switched access revenue.
 32.5083 Special access revenue.
 32.5105 Long distance message revenue.
 32.5200 Miscellaneous revenue.
 32.5280 Nonregulated operating revenue.
 32.5300 Uncollectible revenue.

Subpart E—Instructions for Expense Accounts

32.5999 General.
 32.6110 Network support expense.
 32.6112 Motor vehicle expense.
 32.6113 Aircraft expense.
 32.6114 Tools and other work equipment
 expense.
 32.6120 General support expenses.
 32.6121 Land and building expenses.
 32.6122 Furniture and artworks expense.
 32.6123 Office equipment expense.
 32.6124 General purpose computers expense.
 32.6210 Central office switching expenses.
 32.6211 Non-digital switching expense.
 32.6212 Digital electronic switching expense.
 32.6220 Operator systems expense.
 32.6230 Central office transmission expense.
 32.6231 Radio systems expense.
 32.6232 Circuit equipment expense.
 32.6310 Information origination/termination
 expense.
 32.6311 Station apparatus expense.
 32.6341 Large private branch exchange
 expense.
 32.6351 Public telephone terminal equipment
 expense.
 32.6362 Other terminal equipment expense.
 32.6410 Cable and wire facilities expenses.
 32.6411 Poles expense.

32.6421 Aerial cable expense.
 32.6422 Underground cable expense.
 32.6423 Buried cable expense.
 32.6424 Submarine and deep sea cable expense.
 32.6426 Intrabuilding network cable expense.
 32.6431 Aerial wire expense.
 32.6441 Conduit systems expense.
 32.6510 Other property, plant and equipment expenses.
 32.6511 Property held for future telecommunications use expense.
 32.6512 Provisioning expense.
 32.6530 Network operations expenses.
 32.6531 Power expense.
 32.6532 Network administration expense.
 32.6533 Testing expense.
 32.6534 Plant operations administration expense.
 32.6535 Engineering expense.
 32.6540 Access expense.
 32.6560 Depreciation and amortization expenses.
 32.6610 Marketing.
 32.6611 Product management and sales
 32.6613 Product advertising
 32.6620 Services.
 32.6720 General and administrative.
 32.6790 Provision for uncollectible notes receivable.

Subpart F—Instructions for Other Income Accounts

32.6999 General.
 32.7099 Content of accounts.
 32.7100 Other operating income and expenses.
 32.7199 Content of accounts.
 32.7200 Operating taxes.
 32.7210 Operating investment tax credits – net.
 32.7220 Operating Federal income taxes.
 32.7230 Operating state and local income taxes.
 32.7240 Operating other taxes.
 32.7250 Provision for deferred operating income taxes – net.
 32.7299 Content of accounts.
 32.7300 Nonoperating income and expense.
 32.7399 Content of accounts.
 32.7400 Nonoperating taxes.
 32.7499 Content of accounts.
 32.7500 Interest and related items.
 32.7599 Content of accounts.
 32.7600 Extraordinary items.
 32.7899 Content of accounts.
 32.7910 Income effect of jurisdictional ratemaking differences – net.
 32.7990 Nonregulated net income.

Subpart G—Glossary

32.9000 Glossary of terms.

Section 32.11 Classification of companies is revised to read as follows:

§ 32.11 Classification of Companies.

(a) For purposes of this section, the term “company” or “companies” means incumbent local exchange carrier(s) as defined in section 251(h) of the Communications Act, and any other carriers that the Commission designates by Order.

(b) For accounting purposes, companies are divided into classes as follows:

(1) Class A. Companies having annual revenues from regulated telecommunications operations that are equal to or above the indexed revenue threshold.

(2) Class B. Companies having annual revenues from regulated telecommunications operations that are less than the indexed revenue threshold.

(c) Class A companies, except mid-sized incumbent local exchange carriers, as defined by § 32.9000, shall keep all the accounts of this system of accounts which are

applicable to their affairs and are designated as Class A accounts. Class A companies, which include mid-sized incumbent local exchange carriers, shall keep Basic Property Records in compliance with the requirements of §§ 32.2000(e) and (f) of this part.

(d) Class B companies and mid-sized incumbent local exchange carriers, as defined by § 32.9000, shall keep all accounts of this system of accounts which are applicable to their affairs and are designated as Class B accounts. Mid-sized incumbent local exchange carriers shall also maintain subsidiary record categories necessary to provide the pole attachment data currently provided in the Class A accounts. Class B companies shall keep Continuing Property Records in compliance with the requirements of §§ 32.2000(e)(7)(A) and 32.2000(f) of this part.

(e) Class B companies and mid-sized incumbent local exchange carriers, as defined by § 32.9000 of this part, that desire more detailed accounting may adopt the accounts prescribed for Class A companies upon the submission of a written notification to the Commission.

(f) The classification of a company shall be determined at the start of the calendar year following the first time its annual operating revenue from regulated telecommunications operations equals, exceeds, or falls below the indexed revenue threshold.

Section 32.13 Accounts—general is amended by deleting paragraph (a)(1) and redesignating paragraphs (a)(2) and (a)(3) as (a)(1) and (a)(2).

Section 32.14 Regulated accounts is amended by revising paragraph (e) to read as follows:

§32.14 Regulated accounts.

* * * * *

(e) All costs and revenues related to the offering of regulated products and services which result from arrangements for joint participation or apportionment between two or more telephone companies (e.g., joint operating agreements, settlement agreements, cost-pooling agreements) shall be recorded within the detailed accounts. Under joint operating agreements, the creditor will initially charge the entire expenses to the appropriate primary accounts. The proportion of such expenses borne by the debtor shall be credited by the creditor and charged by the debtor to the account initially charged. Any allowances for return on property used will be accounted for as provided in Account 5200, Miscellaneous revenue.

* * * * *

Section 32.16 Changes in accounting standard is amended by revising paragraph (a) to read as follows:

§ 32.16 Changes in accounting standard.

(a) The company's records and accounts shall be adjusted to apply new accounting standards prescribed by the Financial Accounting Standards Board or successor authoritative accounting standard-setting groups, in a manner consistent with generally accepted accounting principles. The change in an accounting standard will automatically take effect 90 days after the company informs this Commission of its intention to follow the new standard, unless the Commission notifies the company to the contrary. Any change adopted shall be disclosed in annual reports required by § 43.21(f) in the year of adoption.

* * * * *

Section 32.24 Compensated absences is amended by revising paragraph (b) to read as follows:

§32.24 Compensated absences.

* * * * *

(b) With respect to the liability that exists for compensated absences which is not yet recorded on the books as of the effective date of this part, the liability shall be recorded in Account 4130, Other current liabilities, with a corresponding entry to Account 1438, Deferred maintenance, retirements and other deferred charges. This deferred charge shall be amortized on a straight-line basis over a period of ten years.

* * * * *

Section 32.27 Transactions with affiliates is revised to read as follows:

§32.27 Transactions with affiliates.

(a) Unless otherwise approved by the Chief, Common Carrier Bureau, transactions with affiliates involving asset transfers into or out of the regulated accounts shall be recorded by the carrier in its regulated accounts as provided in paragraphs (b) through (f) of this section.

(b) Assets sold or transferred between a carrier and its affiliate pursuant to a tariff, including a tariff filed with a state commission, shall be recorded in the appropriate revenue accounts at the tariffed rate. Non-tariffed assets sold or transferred between a carrier and its affiliate that qualify for prevailing price valuation, as defined in paragraph (d) of this section, shall be recorded at the prevailing price. For all other assets sold by or transferred from a carrier to its affiliate, the assets shall be recorded at no less than the higher of fair market value and net book cost. For all other assets sold by or transferred

to a carrier from its affiliate, the assets shall be recorded at no more than the lower of fair market value and net book cost.

(1) *Floor.* When assets are sold by or transferred from a carrier to an affiliate, the higher of fair market value and net book cost establishes a floor, below which the transaction cannot be recorded. Carriers may record the transaction at an amount equal to or greater than the floor, so long as that action complies with the Communications Act of 1934, as amended, Commission rules and orders, and is not otherwise anti-competitive.

(2) *Ceiling.* When assets are purchased from or transferred from an affiliate to a carrier, the lower of fair market value and net book cost establishes a ceiling, above which the transaction cannot be recorded. Carriers may record the transaction at an amount equal to or less than the ceiling, so long as that action complies with the Communications Act of 1934, as amended, Commission rules and orders, and is not otherwise anti-competitive.

(3) *Threshold.* For purposes of this section carriers are required to make a good faith determination of fair market value for an asset when the total aggregate annual value of the asset(s) reaches or exceeds \$500,000, per affiliate. When a carrier reaches or exceeds the \$500,000 threshold for a particular asset for the first time, the carrier must perform the market valuation and value the transaction on a going-forward basis in accordance with the affiliate transactions rules on a going -forward basis. When the total aggregate annual value of the asset(s) does not reach or exceed \$500,000, the asset(s) shall be recorded at net book cost.

(c) Services provided between a carrier and its affiliate pursuant to a tariff, including a tariff filed with a state commission, shall be recorded in the appropriate revenue accounts at the tariffed rate. Non- tariffed services provided between a carrier and its affiliate pursuant to publicly-filed agreements submitted to a state commission pursuant to section 252(e) of the Communications Act of 1934 or statements of generally available terms pursuant to section 252(f) shall be recorded using the charges appearing in such publicly-filed agreements or statements. Non-tariffed services provided between a carrier and its affiliate that qualify for prevailing price valuation, as defined in paragraph (d) of this section, shall be recorded at the prevailing price. For all other services sold by or transferred from a carrier to its affiliate, the services shall be recorded at no less than the higher of fair market value and fully distributed cost. For all other services sold by or transferred to a carrier from its affiliate, the services shall be recorded at no more than the lower of fair market value and fully distributed cost.

(1) *Floor.* When services are sold by or transferred from a carrier to an affiliate, the higher of fair market value and fully distributed cost establishes a floor, below which the transaction cannot be recorded. Carriers may record the transaction at an amount equal to or greater than the floor, so long as that action complies with the Communications Act of 1934, as amended, Commission rules and orders, and is not otherwise anti-competitive.

(2) *Ceiling.* When services are purchased from or transferred from an affiliate to a carrier, the lower of fair market value and fully distributed cost establishes a ceiling, above which the transaction cannot be recorded. Carriers may record the transaction at an amount equal to or less than the ceiling, so long as that action complies with the Communications Act of 1934, as amended, Commission rules and orders, and is not otherwise anti-competitive.

(3) *Threshold.* For purposes of this section, carriers are required to make a good faith determination of fair market value for a service when the total aggregate annual value of that service reaches or exceeds \$500,000, per affiliate. When a carrier reaches or exceeds the \$500,000 threshold for a particular service for the first time, the carrier must perform the market valuation and value the transaction in accordance with the affiliate transactions rules on a going-forward basis. All services received by a carrier from its affiliate(s) that exist solely to provide services to members of the carrier's corporate family shall be recorded at fully distributed cost.

(d) In order to qualify for prevailing price valuation in paragraphs (b) and (c) of this section, sales of a particular asset or service to third parties must encompass greater than 25 percent of the total quantity of such product or service sold by an entity. Carriers shall apply this 25 percent threshold on an asset-by-asset and service-by-service basis, rather than on a product-line or service-line basis. In the case of transactions for assets and services subject to section 272, a BOC may record such transactions at prevailing price regardless of whether the 25 percent threshold has been satisfied.

(e) Income taxes shall be allocated among the regulated activities of the carrier, its nonregulated divisions, and members of an affiliated group. Under circumstances in which income taxes are determined on a consolidated basis by the carrier and other members of the affiliated group, the income tax expense to be recorded by the carrier shall be the same as would result if determined for the carrier separately for all time periods, except that the tax effect of carry-back and carry-forward operating losses, investment tax credits, or other tax credits generated by operations of the carrier shall be recorded by the carrier during the period in which applied in settlement of the taxes otherwise attributable to any member, or combination of members, of the affiliated group.

(f) Companies that employ average schedules in lieu of actual costs are exempt from the provisions of this section. For other organizations, the principles set forth in this section shall apply equally to corporations, proprietorships, partnerships and other forms of business organizations.

Section 32.101 Structure of the balance sheet accounts is revised to read as follows:

§32.101 Structure of the balance sheet accounts.

The Balance Sheet accounts shall be maintained as follows:

Account 1120, Cash and equivalents, through Account 1500, Other jurisdictional assets--net, shall include assets other than regulated-fixed assets.

Account 2001, Telecommunications plant in service, through Account 2007, Goodwill, shall include the regulated-fixed assets.

Account 3100, Accumulated depreciation through Account 3410, Accumulated amortization—capitalized leases, shall include the asset reserves except that reserves related to certain asset accounts will be included in the asset account. (See §§ 32.2005, 32.2682 and 32.2690.)

Account 4000, Current accounts and notes payable, through Account 4550, Retained earnings, shall include all liabilities and stockholders equity.

Section 32.103 Balance sheet accounts for other than regulated-fixed assets to be maintained is revised as follows:

§ 32.103 Balance sheet accounts for other than regulated-fixed assets to be maintained.

BALANCE SHEET ACCOUNTS

Account Title	Class A account	Class B account
Current Assets		
Cash and equivalents	1120	1120
Receivables	1170	1170
Allowance for doubtful accounts	1171	1171
Supplies:		
Material and supplies	1220	1220
Prepayments	1280	1280
Other current assets	1350	1350
Noncurrent Assets		
Investments:		
Nonregulated investments	1406	1406
Other noncurrent assets	1410	1410
Deferred charges:		
Deferred maintenance, retirements and other deferred charges	1438	1438
Other:		
Other jurisdictional assets-net	1500	1500

Section 32.1120 Cash and equivalents is revised to read as follows:

§ 32.1120 Cash and equivalents.

(a) This account shall include the amount of current funds available for use on demand in the hands of financial officers and agents, deposited in banks or other financial institutions and also funds in transit for which agents have received credit.

(b) This account shall include the amount of cash on special deposit, other than in sinking and other special funds provided for elsewhere, to pay dividends, interest, and other debts, when such payments are due one year or less from the date of deposit; the amount of cash deposited to insure the performance of contracts to be performed within one year from date of the deposit; and other cash deposits of a special nature not provided for elsewhere. This account shall include the amount of cash deposited with trustees to be held until mortgaged property sold, destroyed, or otherwise disposed of is replaced, and also cash realized from the sale of the company's securities and deposited with trustees to be held until invested in physical property of the company or for disbursement when the purposes for which the securities were sold are accomplished.

(c) Cash on special deposit to be held for more than one year from the date of deposit shall be included in Account 1410, Other noncurrent assets.

(d) This account shall include the amount of cash advanced to officers, agents, employees, and others as petty cash or working funds from which expenditures are to be made and accounted for.

(e) This account shall include the cost of current securities acquired for the purpose of temporarily investing cash, such as time drafts receivable and time loans, bankers' acceptances, United States Treasury certificates, marketable securities, and other similar investments of a temporary character.

(f) Accumulated changes in the net unrealized losses of current marketable equity securities shall be included in the determination of net income in the period in which they occur in Account 7300, Other Nonoperating Income and Expense.

(g) Subsidiary record categories shall be maintained in order that the entity may separately report the amounts of temporary investments that relate to affiliates and nonaffiliates. Such subsidiary record categories shall be reported as required by part 43 of this Commission's Rules and Regulations.

Section 32.1130 Cash is deleted.

Section 32.1140 Special cash deposits is deleted.

Section 32.1150 Working cash advances is deleted.

Section 32.1160 Temporary investments is deleted.

Section 32.1170 Receivables is added to read as follows:

§ 32.1170 Receivables.

(a) This account shall include all amounts due from customers for services rendered or billed and from agents and collectors authorized to make collections from customers. This account shall also include all amounts due from customers or agents for products sold. This account shall be kept in such manner as will enable the company to make the following analysis:

(1) Amounts due from customers who are receiving telecommunications service.

(2) Amounts due from customers who are not receiving service and whose accounts are in process of collection.

(b) Collections in excess of amounts charged to this account may be credited to and carried in this account until applied against charges for services rendered or until refunded.

(c) Cost of demand or time notes, bills and drafts receivable, or other similar evidences (except interest coupons) of money receivable on demand or within a time not exceeding one year from date of issue.

(d) Amount of interest accrued to the date of the balance sheet on bonds, notes, and other commercial paper owned, on loans made, and the amount of dividends receivable on stocks owned.

(e) This account shall not include dividends or other returns on securities issued or assumed by the company and held by or for it, whether pledged as collateral, or held in its treasury, in special deposits, or in sinking and other funds.

(f) Dividends received and receivable from affiliated companies accounted for on the equity method shall be included in Account 1410, Other noncurrent assets, as a reduction of the carrying value of the investment.

(g) This account shall include all amounts currently due, and not provided for in (a)-(g) above such as those for traffic settlements, divisions of revenue, material and supplies, matured rents, and interest receivable under monthly settlements on short-term loans, advances, and open accounts. If any of these items are not to be paid currently, they shall be transferred to Account 1410, Other noncurrent assets.

(h) Subsidiary record categories shall be maintained in order that the entity may separately report the amounts contained herein that relate to affiliates and nonaffiliates. Such subsidiary record categories shall be reported as required by part 43 of this Commission's Rules and Regulations.

Section 32.1171 Allowance for doubtful accounts is added to read as follows:

§ 32.1171 Allowance for doubtful accounts.

(a) This account shall be credited with amounts charged to Accounts 5300, Uncollectible revenue, and 6790, Provision for uncollectible notes receivable to provide for uncollectible amounts related to accounts receivable and notes receivable included in Account 1170, Receivables. There shall also be credited to this account amounts collected which previously had been written off through charges to this account and credits to Account 1170. There shall be charged to this account any amounts covered thereby which have been found to be impracticable of collection.

(b) If no such allowance is maintained, uncollectible amounts shall be charged directly to Account 5300, Uncollectible revenue or directly to Account 6790, Provision for uncollectible notes receivable, as appropriate.

(c) Subsidiary record categories shall be maintained in order that the entity may separately report the amounts contained herein that relate to affiliates and nonaffiliates. Such subsidiary record categories shall be reported as required by part 43 of this Commission's Rules and Regulations.

Section 32.1180 Telecommunications accounts receivable is deleted.

Section 32.1181 Accounts receivable allowance—telecommunications is deleted

Section 32.1190 Other accounts receivable is deleted.

Section 32.1191 Accounts receivable allowance—other is deleted.

Section 32.1200 Notes receivable is deleted.

Section 32.1201 Notes receivable allowance is deleted.

Section 32.1210 Interest and dividends receivable is deleted.

Section 32.1220 Inventories is amended by revising paragraphs (g) and (h) to read as follows:

§ 32.1220 Inventories.

* * * * *

(g) Interest paid on material bills, the payments of which are delayed, shall be charged to Account 7500, Interest and related items.

(h) Inventories of material and supplies shall be taken periodically or frequently enough for reporting purposes, as appropriate, in accordance with generally accepted accounting principles. The adjustments to this account shall be charged or credited to Account 6512, Provisioning expense.

* * * * *

Section 32.1280 Prepayments is revised to read as follows:

§ 32.1280 Prepayments.

(a) This account shall include:

(1) The amounts of rents paid in advance of the period in which they are chargeable to income, except amounts chargeable to telecommunications plant under construction and minor amounts which may be charged directly to the final accounts. As the term expires for which the rents are paid, this account shall be credited monthly and the appropriate account charged.

(2) The balance of all taxes, other than amounts chargeable to telecommunication plant under construction and minor amounts which may be charged to the final accounts, paid in advance and which are chargeable to income within one year. As the term expires for which the taxes are paid, this account shall be credited monthly and the appropriate account charged.

(3) The amount of insurance premiums paid in advance of the period in which they are chargeable to income, except premiums chargeable to telecommunications plant under construction and minor amounts which may be charged directly to the final accounts. As the term expires for which the premiums are paid, this account shall be credited monthly and the appropriate account charged.

(4) The cost of preparing, printing, binding, and delivering directories and the cost of soliciting advertisements for directories, except minor amounts which may be charged directly to Account 6620, Services. Amounts in this account shall be cleared to Account 6620 by monthly charges representing that portion of the expenses applicable to each month.

(5) Other prepayments not included in (1)-(4) above except for minor amounts which may be charged directly to the final accounts. As the term expires for which the payments apply, this account shall be credited monthly and the appropriate account charged.

Section 32.1290 Prepaid rents is deleted.

Section 32.1300 Prepaid taxes is deleted.

Section 32.1310 Prepaid insurance is deleted.

Section 32.1320 Prepaid directory expenses is deleted.

Section 32.1330 Other prepayments is deleted.

Section 32.1350 Other current assets is revised to read as follows:

§ 32.1350 Other current assets.

This account shall include the amount of all current assets which are not includable in Accounts 1120 through 1280.

Section 32.1401 Investments in affiliated companies is deleted.

Section 32.1402 Investments in nonaffiliated companies is deleted.

Section 32.1406 Nonregulated investments is amended by deleting paragraph (b).

Section 32.1407 Unamortized debt issuance expense is deleted.

Section 32.1408 Sinking funds is deleted.

Section 32.1410 Other noncurrent assets is revised to read as follows:

§32.1410 Other noncurrent assets.

(a) This account shall include the acquisition cost of the company's investment in equity or other securities issued or assumed by affiliated companies, including securities held in special funds (sinking funds). The carrying value of the investment (securities) accounted for on the equity method shall be adjusted to recognize the company's share of the earnings or losses and dividends received or receivable of the affiliated company

from the date of acquisition. (Note also Account 1170, Receivables, and Account 7300, Nonoperating income and expense.)

(b) This account shall include the acquisition cost of the Company's investment in securities issued or assumed by nonaffiliated companies and individuals, and also its investment advances to such parties and special deposits of cash for more than one year from date of deposit.

(c) Declines in value of investments, including those accounted for under the cost method, shall be charged to Account 4540, Other capital, if temporary and as a current period loss if permanent. Detail records shall be maintained to reflect unrealized losses for each investment.

(d) This account shall also include advances represented by book accounts only with respect to which it is agreed or intended that they shall be either settled by issuance of capital stock or debt; or shall not be subject to current cost settlement.

(e) Amounts due from affiliated and nonaffiliated companies which are subject to current settlement shall be included in Account 1170, Receivables.

(f) This account shall include the total unamortized balance of debt issuance expense for all classes of outstanding long-term debt. Amounts included in this account shall be amortized monthly and charged to account 7500, Interest and related items.

(g) Debt Issuance expense includes all expenses in connection with the issuance and sale of evidence of debt, such as fees for drafting mortgages and trust deeds; fees and taxes for issuing or recording evidences of debt; costs of engraving and printing bonds, certificates of indebtedness, and other commercial paper; fees paid trustees; specific costs of obtaining governmental authority; fees for legal services; fees and commissions paid underwriters, brokers, and salesmen; fees and expenses of listing on exchanges, and other like costs. A subsidiary record shall be kept of each issue outstanding.

(h) This account shall include the amount of cash and other assets which are held by trustees or by the company's treasurer in a distinct fund, for the purpose of redeeming outstanding obligations. Interest or other income arising from funds carried in this account shall generally be charged to this account. A subsidiary record shall be kept for each sinking fund which shall designate the obligation in support of which the fund was created.

(i) This account shall include the amount of all noncurrent assets which are not includable in (a)-(h) above.

(j) A subsidiary record shall be kept identifying separately common stocks, preferred stocks, long-term debt, advances to affiliates, and investment advances. A subsidiary record shall also be kept identifying special deposits of cash for more than one year from the date of deposit. Further, the company's record shall identify the securities

pledged as collateral for any of the company's long-term debt or short-term loans or to secure performance of contracts.

(k) Subsidiary record categories shall be maintained in order that the entity may separately report the amounts contained herein that relate to the equity method and the cost method. Such subsidiary record categories shall be reported as required by part 43 of this Commission's Rules and Regulations.

Section 32.1437 Deferred tax regulatory assets is deleted.

Section 32.1438 Deferred maintenance and retirements is renamed and revised to read as follows:

§32.1438 Deferred maintenance, retirements and other deferred charges.

(a) This account shall include such items as:

(1) The unprovided-for loss in service value of telecommunications plant for extraordinary nonrecurring retirement not considered in depreciation and the cost of extensive replacements of plant normally chargeable to the current period Plant Specific Operations Expense accounts. These charges shall be included in this account only upon direction or approval from this Commission. However, the company's application to this Commission for such approval shall give full particulars concerning the property retired, the extensive replacements, the amount chargeable to operating expenses and the period over which in its judgment the amount of such charges should be distributed.

(2) Unaudited amounts and other debit balances in suspense that cannot be cleared and disposed of until additional information is received; the amount, pending determination of loss, of funds on deposit with banks which have failed; revenue, expense, and income items held in suspense; amounts paid for options pending final disposition.

(3) Cost of preliminary surveys, plans, investigation, etc., made for construction projects under contemplation. If the projects are carried out, the preliminary costs shall be included in the cost of the plant constructed. If the projects are abandoned, the preliminary costs shall be charged to Account 7300, Nonoperating income and expense.

(4) Cost of evaluations, inventories, and appraisals taken in connection with the acquisition or sale of property. If the property is subsequently acquired, the preliminary costs shall be accounted for as a part of the cost of acquisition, or if it is sold, such costs shall be deducted from the sale price in accounting for the property sold. If purchases or sales are abandoned, the preliminary costs included herein (including options paid, if any) shall be charged to Account 7300.

Section 32.1439 Deferred charges is deleted.

Section 32.2000 Instructions for telecommunications plant accounts is amended by revising paragraphs (a)(2), (a)(4), (b)(2)(i), (b)(2)(iii), (b)(2)(iv), (c)(2)(x), (c)(2)(xiii), (d)(2)(i), (d)(4), (d)(5), (f)(3)(i), (g)(3), (g)(5), (h)(3), and (j) as follows:

§ 32.2000 Instructions for telecommunications plant accounts.

(a) * * *

(2) The telecommunications plant accounts shall not include the cost or other value of telecommunications plant contributed to the company. Contributions in the form of money or its equivalent toward the construction of telecommunications plant shall be credited to the accounts charged with the cost of such construction. Amounts of non-recurring reimbursements based on the cost of plant or equipment furnished in rendering service to a customer shall be credited to the accounts charged with the cost of the plant or equipment. Amounts received for construction which are ultimately to be repaid wholly or in part, shall be credited to Account 4300, Other long-term liabilities and deferred credits; when final determination has been made as to the amount to be returned, any unrefunded amounts shall be credited to the accounts charged with the cost of such construction. Amounts received for the construction of plant, the ownership of which rests with or will revert to others, shall be credited to the accounts charged with the cost of such construction. (Note also Account 7100, Other operating income and expense.)

(3) * * *

(4) The cost of the individual items of equipment, classifiable to Accounts 2112, Motor vehicles; 2113, Aircraft; 2114, Tools and other work equipment; 2122, Furniture; 2123, Office equipment; 2124, General purpose computers, costing \$2,000 or less or having a life of less than one year shall be charged to the applicable expense accounts, except for personal computers falling within Account 2124. Personal computers classifiable to Account 2124, with a total cost for all components of \$500 or less, shall be charged to the applicable Plant Specific Operations Expense accounts. The cost of tools and test equipment located in the central office, classifiable to central office asset accounts 2210-2232 costing \$2000 or less or having a life of less than one year shall be charged to the applicable Plant Specific Operations Expense accounts. If the aggregate investment in the items is relatively large at the time of acquisition, such amounts shall be maintained in an applicable material and supplies account until items are used.

(b) * * *

(2) * * *

(i) The amount of money paid (or current money value of any consideration other than money exchanged) for the property (together with preliminary expenses incurred in

connection the acquisition) shall be charged to Account 1438, Deferred maintenance, retirements, and other deferred charges.

(ii) * * *

(iii) Accumulated Depreciation and amortization balances related to plant acquired shall be credited to Account 3100, Accumulated depreciation, or Account 3200, Accumulated depreciation--held for future telecommunications use, or Account 3410, Accumulated amortization-- capitalized leases and debited to Account 1438. Accumulated amortization balances related to plant acquired which ultimately is recorded in Accounts 2005, Telecommunications plant adjustment, Account 2682, Leasehold improvements, or Account 2690, Intangibles shall be credited to these asset accounts, and debited to Account 1438.

(iv) Any amount remaining in Account 1438, applicable to the plant acquired, shall, upon completion of the entries provided in paragraphs (b)(2) (i), (ii) and (iii) of this section, be debited or credited, as applicable, to Account 2007, Goodwill, or to Account 2005, Telecommunications plant adjustment, as appropriate.

(3) * * *

(c) * * *

(2) * * *

(x) Allowance for funds used during construction ("AFUDC") provides for the cost of financing the construction of telecommunications plant. AFUDC shall be charged to Account 2003, Telecommunications plant under construction, and credited to Account 7300, Nonoperating income and expense. The rate for calculating AFUDC shall be determined as follows: If financing plans associate a specific new borrowing with an asset, the rate on that borrowing may be used for the asset; if no specific new borrowing is associated with an asset or if the average accumulated expenditures for the asset exceed the amounts of specific new borrowing associated with it, the capitalization rate to be applied to such excess shall be the weighted average of the rates applicable to other borrowings of the enterprise. The amount of interest cost capitalized in an accounting period shall not exceed the total amount of interest cost incurred by the company in that period.

(xi) * * *

(xiii) "Indirect construction costs" shall include indirect costs such as general engineering, supervision and support. Such costs, in addition to direct supervision, shall include indirect plant operations and engineering supervision up to, but not including, supervision by executive officers whose pay and expenses are chargeable to Account 6720, General and administrative. The records supporting the entries for indirect construction costs shall be kept so as to show the nature of the expenditures, the

individual jobs and accounts charged, and the bases of the distribution. The amounts charged to each plant account for indirect costs shall be readily determinable. The instructions contained herein shall not be interpreted as permitting the addition to plant of amounts to cover indirect costs based on arbitrary allocations.

(xiv) * * *

(d) * * *

(2) * * *

(i) Retirement units: This group includes major items of property, a representative list of which shall be prescribed by this Commission. In lieu of the retirement units prescribed with respect to a particular account, a company may, after obtaining specific approval by this Commission, establish and maintain its own list of retirement units for a portion or all of the plant in any such account. For items included on the retirement units list, the original cost of any such items retired shall be credited to the plant account and charged to Account 3100 Accumulated Depreciation, whether or not replaced. The original cost of retirement units installed in place of property retired shall be charged to the applicable telecommunications plant account.

(ii) * * *

(4) The accounting for the retirement of property, plant and equipment shall be as provided above except that amounts in Account 2111, Land, and amounts for works of art recorded in Account 2122, Furniture, shall be treated at disposition as a gain or loss and shall be credited or debited to Account 7100, Other operating income and expense, as applicable. If land or artwork is retained by the company and held for sale, the cost shall be charged to Account 2006, Nonoperating plant.

(5) When the telecommunications plant is sold together with traffic associated therewith, the original cost of the property shall be credited to the applicable plant accounts and the estimated amounts carried with respect thereto in the accumulated depreciation and amortization accounts shall be charged to such accumulated accounts. The difference, if any, between the net amount of such debit and credit items and the consideration received (less commissions and other expenses of making the sale) for the property shall be included in Account 7300, Nonoperating income and expense. The accounting for depreciable telecommunications plant sold without the traffic associated therewith shall be in accordance with the accounting provided in § 32.3100(c) of this subpart.

(e) * * *

(f) * * *

(3) * * *

(i) Unit identification. Cost shall be identified and maintained by specific location for property record units contained within certain regulated plant accounts or account groupings such as Land, Buildings, Central Office Assets, Motor Vehicles, garage work equipment included in Account 2114, Tools and other work equipment, and Furniture. In addition, units involved in any unusual or special type of construction shall be recorded by their specific location costs (note also § 32.2000(f)(3)(ii)(B) of this subpart.

(ii) * * *

(g) * * *

(3) Acquired depreciable plant. When acquired depreciable plant carried in Account 1438, Deferred maintenance, retirements and other deferred charges, is distributed to the appropriate plant accounts, adjusting entries shall be made covering the depreciation charges applicable to such plant for the period during which it was carried in Account 1438.

(4) * * *

(5) Upon direction or approval from this Commission, the company shall credit Account 3100, Accumulated depreciation, and charge Account 1438, Deferred maintenance, retirements and other deferred charges, with the unprovided-for loss in service value. Such amounts shall be distributed from Account 1438 to Account 6560, Depreciation and amortization expense over such period as this Commission may direct or approve.

(h) * * *

(3) Amortization charges shall be made monthly to the appropriate amortization expense accounts and corresponding credits shall be made to accounts 2005, 2682, 2690, and 3410, as appropriate. Monthly charges shall be computed by the application of one-twelfth to the annual amortization amount.

(4) * * *

(j) Plant Accounts to be Maintained by Class A and Class B telephone companies as indicated:

Account Title	Class A Account	Class B Account
Regulated Plant		
Property, plant and Equipment:		
Telecommunications plant in service	(1) 2001	(1) 2001
Property held for future	2002	2002

telecommunications use		
Telecommunications plant under construction-short term	2003	2003
Telecommunications plant adjustment	2005	2005
Nonoperating plant	2006	2006
Goodwill	2007	2007
TELECOMMUNICATIONS PLANT IN SERVICE (TPIS)		
TPIS-General support assets:		
Land and support assets	.....	2110
Land	2111	.....
Motor vehicles	2112	.....
Aircraft	2113	.....
Tools and other work equipment	2114	.....
Buildings	2121	.....
Furniture	2122	.....
Office equipment	2123	.....
General purpose computers	2124	.....
TPIS-Central Office assets:		
Central Office-Switching	.....	2210
Non-digital switching	2211	.....
Digital electronic switching	2212	.....
Operator systems	2220	2220
Central Office-Transmission	.....	2230
Radio systems	2231	.....
Circuit equipment	2232	.....
TPIS-Information origination/termination assets:		
Information origination termination	.....	2310
Station apparatus	2311	.....
Customer premises wiring	2321	.....
Large private branch exchanges	2341	...
Public telephone terminal equipment	2351	.....
Other terminal equipment	2362	.....
TPIS-Cable and wire		

facilities assets:		
Cable and wire facilities	.....	2410
Poles	2411	.....
Aerial cable	2421	.....
Underground cable	2422	.....
Buried cable	2423	.....
Submarine and deep sea cable	2424	.....
Intrabuilding network cable	2426	.....
Aerial wire	2431	.....
Conduit systems	2441	.....
TPIS-Amortizable assets:		
Amortizable tangible assets	.....	2680
Capital leases	2681	.....
Leasehold improvements	2682	.....
Intangibles	2690	2690

(1) Balance sheet summary account only.

Section 32.2003 Telecommunications plant under construction is amended by revising paragraph (c) to read as follows:

§ 32.2003 Telecommunications plant under construction.

* * * * *

(c) If a construction project has been suspended for six months or more, the cost of the project included in this account may remain in this account so long as the carrier excludes the original cost and associated depreciation from its ratebase and ratemaking considerations and reports those amounts in reports filed with the Commission pursuant to 43.21(e)(1) and 43.21(e)(2) of this chapter. If a project is abandoned, the cost included in this account shall be charged to Account 7300, Nonoperating income and expense.

* * * * *

Section 32.2005 Telecommunications plant adjustment is amended by revising subparagraphs (1), (2), (3), and (4) of paragraph (b) to read as follows:

§ 32.2005 Telecommunications plant adjustment.

* * * * *

(b) * * *

(1) Debit amounts may be charged in whole or in part, or amortized over a reasonable period through charges to Account 7300, Nonoperating income and expense, without further direction or approval by this Commission. When specifically approved by this Commission, or when the provisions of paragraph (b)(3) of this section apply, debit amounts shall be amortized to Account 6560, Depreciation and amortization expense.

(2) Credit amounts shall be disposed of in such manner as this Commission may approve or direct, except for credit amounts referred to in paragraph (b)(4) of this section.

(3) The amortization associated with the costs recorded in the Telecommunications plant adjustment account will be charged or credited, as appropriate, directly to this asset account, leaving a balance representing the unamortized cost.

(4) Within one year from the date of inclusion in this account of a debit or credit amount with respect to a current acquisition, the company may dispose of the total amount from an acquisition of telephone plant by a lump-sum charge or credit, as appropriate, to Account 6560 without further approval of this Commission, provided that such amount does not exceed \$100,000 and that the plant was not acquired from an affiliated company.

Section 32.2007 Goodwill is amended by revising paragraph (a) to read as follows:

§ 32.2007 Goodwill.

(a) This account shall include any portion of the plant purchase price that cannot be assigned to specifically identifiable property acquired and such amount should be identified as “goodwill”. Such amounts included in this account shall be amortized to Account 7300, Nonoperating income and expense, on a straight line basis over the remaining life of the acquired plant, not to exceed 40 years.

* * * * *

Section 32.2111 Land is amended by revising paragraphs (f) and (g) to read as follows:

§ 32.2111 Land.

* * * * *

(f) Installments of assessments for public improvement, including interest, if any, which are deferred without option to the company shall be included in this account only as they become due and payable. Interest on assessments which are not paid when due shall be included in Account 7500, Interest and related items.

(g) When land is purchased for immediate use in a construction project, its cost shall be included in Account 2003, Telecommunications plant under construction, until such time as the project involved is completed and ready for service.

* * * * *

Section 32.2123 Office equipment is amended by deleting paragraph (b).

Section 32.2210 Central office—switching is revised to read as follows:

§ 32.2210 Central office—switching.

This account shall be used by Class B companies to record the original cost of switching assets of the type and character required of Class A companies in Accounts 2211 through 2212.

Section 32.2211 Analog electronic switching is renamed and paragraph (a) is revised to read as follows:

§ 32.2211 Non-digital switching.

(a) This account shall include:

(1) Original cost of stored program control analog circuit-switching and associated equipment.

(2) Cost of remote analog electronic circuit switches.

(3) Original cost of non-electronic circuit-switching equipment such as Step-by-Step, Crossbar, and Other Electro-Mechanical Switching.

* * * * *

Section 32.2212 Digital electronic switching is amended by revising paragraph (a), redesignating paragraph (b) as paragraph (e), and adding new paragraphs (b), (c), (d) as follows:

§ 32.2212 Digital electronic switching.

(a) This account shall include the original cost of stored program control digital switches and their associated equipment. Included in this account are digital switches which utilize either dedicated or non- dedicated circuits. This account shall also include

the cost of remote digital electronic switches. The investment in digital electronic switching equipment shall be maintained in the following subaccounts:

2212.1 Circuit

2212.2 Packet

(b) *2212.1 Circuit.* This subaccount shall include the original cost of digital electronic switching equipment used to provide circuit switching. Circuit switching is a method of routing traffic through a switching center, from local users or from other switching centers, whereby a connection is established between the calling and called stations until the connection is released by the called or calling station.

(c) *2212.2 Packet.* This subaccount shall include the original cost of digital electronic switching equipment used to provide packet switching. Packet switching is the process of routing and transferring information by means of addressed packets so that a channel is occupied during the transmission of the packet only, and upon completion of the transmission the channel is made available for the transfer of other traffic.

(d) Digital electronic switching equipment used to provide both circuit and packet switching shall be recorded in the above subaccounts based upon its predominant use.

(e) Switching plant excludes switchboards which perform an operator assistance function and equipment which is an integral part thereof. It does not exclude equipment used solely for the recording of calling telephone numbers in connection with customer dialed charged traffic, dial tandem switchboards and special service switchboards used in conjunction with private line service; such equipment shall be classified to the particular switch that it serves.

Section 32.2215 Electro-mechanical switching is deleted.

Section 32.2231 Radio systems is revised to read as follows:

§ 32.2231 Radio systems.

(a) This account shall include the original cost of ownership of radio transmitters and receivers. This account shall include the original cost of ownership interest in satellites (including land-side spares), other spare parts, material and supplies. It shall include launch insurance and other satellite launch costs. This account shall also include the original cost of earth stations and spare parts, material or supplies therefor.

(b) This account shall also include the original cost of radio equipment used to provide radio communication channels. Radio equipment is that equipment which is used for the generation, amplification, propagation, reception, modulation, and demodulation of radio waves in free space over which communication channels can be

provided. This account shall also include the associated carrier and auxiliary equipment and patch bay equipment which is an integral part of the radio equipment. Such equipment may be located in central office building, terminal room, or repeater stations or may be mounted on towers, masts, or other supports.

Section 32.2232 Circuit equipment is amended by revising paragraphs (a) and (b), redesignating paragraphs (b) and (c) as (e) and (f), and adding new paragraphs (b), (c), and (d) as follows:

§ 32.2232 Circuit equipment.

(a) This account shall include the original cost of equipment which is used to reduce the number of physical pairs otherwise required to serve a given number of subscribers by utilizing carrier systems, concentration stages or combinations of both. It shall include equipment that provides for simultaneous use of a number of interoffice channels on a single transmission path. This account shall also include equipment which is used for the amplification, modulation, regeneration, circuit patching, balancing or control of signals transmitted over interoffice communications transmission channels. This account shall include equipment which utilizes the message path to carry signaling information or which utilizes separate channels between switching offices to transmit signaling information independent of the subscribers' communication paths or transmission channels. This account shall also include the original cost of associated material used in the construction of such plant. Circuit equipment may be located in central offices, in manholes, on poles, in cabinets or huts, or at other company locations. The investment in circuit equipment shall be maintained in the following subaccounts:

2232.1 Electronic

2232.2 Optical

(b) *2232.1 Electronic.* This subaccount shall include the original cost of electronic circuit equipment.

(c) *2232.2 Optical.* This subaccount shall include the original cost of optical circuit equipment.

(d) Circuit equipment that converts electronic signals to optical signals or optical signals to electronic signals shall be categorized as electronic.

(e) This account excludes carrier and auxiliary equipment and patch bays which are includable in Account 2231, Radio Systems. This account also excludes such equipment which is an integral component of a major unit which is classifiable to other accounts.

(f) Subsidiary record categories shall be maintained in order that the company may separately report the amounts contained herein that relate to digital and analog. Such

subsidiary record categories shall be reported as required by part 43 of this Commission's Rules and Regulations.

Section 32.2311 Station apparatus is amended by revising paragraph (f) as follows:

§ 32.2311 Station apparatus.

* * * * *

(f) Periodic asset verification, as prescribed by generally accepted accounting principles, shall be taken of all station apparatus in stock that are included in this account. The number of such station apparatus items as determined by this verification together with the number of all other station apparatus items included in this account, shall be compared with the corresponding number of station apparatus items as shown by the respective control records. The original cost of any unreconciled differences thereby disclosed shall be adjusted through Account 3100, Accumulated Depreciation. Appropriate verifications shall be made at suitable intervals and necessary adjustments between this account and Account 3100 shall be made for all station apparatus included in this account.

* * * * *

Section 32.2424 Submarine cable is renamed and paragraph (a) is revised to read as follows:

§ 32.2424 Submarine & deep sea cable.

(a) This account shall include the original cost of submarine cable and deep sea cable and other material used in the construction of such plant. Subsidiary record categories, as defined below, are to be maintained for nonmetallic submarine and deep sea cable and metallic submarine and deep sea cable.

* * * * *

Section 32.2425 Deep sea cable is deleted.

Section 32.2682 Leasehold improvements is amended to revise paragraph (c) as follows:

§ 32.2682 Leasehold improvements.

* * * * *

(c) Amounts contained in this account shall be amortized over the term of the related lease. The amortization associated with the costs recorded in the Leasehold improvement account will be credited directly to this asset account, leaving a balance representing the unamortized cost.

Section 32.2690 Intangibles is amended to read as follows:

§ 32.2690 Intangibles.

(a) This account shall include the cost of organizing and incorporating the company, the original cost of government franchises, the original cost of patent rights, and other intangible property having a life of more than one year and used in connection with the company's telecommunications operations.

(b) Class A companies, except mid-sized incumbent local exchange carriers, shall maintain subsidiary records for general purpose computer software and for network software. Subsidiary records for this account shall also include a description of each class of all other tangible property.

(c) The cost of other intangible assets, not including software, having a life of one year or less shall be charged directly to Account 6560, Depreciation and Amortization Expense. Such intangibles acquired at small cost may also be charged to Account 6560, irrespective of their term of life. The cost of software having a life of one year or less shall be charged directly to the applicable expense account with which the software is associated.

(d) The amortization associated with the costs recorded in the Intangibles account will be credited directly to this asset account, leaving a balance representing the unamortized cost.

(e) This account shall not include any discounts on securities issued, nor shall it include costs incident to negotiating loans, selling bonds or other evidences of debt, or expenses in connection with the authorization, issuance, sale or resale of capital stock.

(f) When charges are made to this account for expenses incurred in mergers, consolidations, or reorganizations, amounts previously included in this account on the books of the various companies concerned shall not be carried over.

(g) Franchise taxes payable annually or more frequently shall be charged to Account 7240, Operating other taxes.

(h) This account shall not include the cost of plant, material and supplies, or equipment furnished to municipalities or other governmental authorities when given other than as initial consideration for franchises or similar rights. (Note also Account 6720, General & administrative.).

(i) This account shall not include the original cost of easements, rights of way, and similar rights in land having a term of more than one year. Such amounts shall be recorded in Account 2111, Land, or in the appropriate outside plant account (see Accounts 2411 through 2441), or in the appropriate central office account (see Accounts 2211 through 2232).

Section 32.3000 Instructions for balance sheet accounts—Depreciation and amortization is amended to read as follows:

§ 32.3000 Instructions for balance sheet accounts—Depreciation and amortization.

(a) * * *

(2) Subsidiary records shall be maintained for Accounts 2005, 2682, 2690, and 3410 in accordance with § 32.2000(h)(4) of this subpart.

(b) Depreciation and Amortization Accounts to be Maintained by Class A and Class B telephone companies, as indicated

Account title	Class A account	Class B account
Depreciation and amortization:		
Accumulated depreciation	3100	3100
Accumulated depreciation- Held for future telecommunications use	3200	3200
Accumulated depreciation- Nonoperating	3300	3300
Accumulated amortization- Capitalized leases	3410	3410

Section 32.3100 Accumulated depreciation is amended by revising paragraph (b) and (d) to read as follows:

§ 32.3100 Accumulated Depreciation.

* * * * *

(b) This account shall be credited with depreciation amounts concurrently charged to Account 6560, Depreciation and amortization expenses. (Note also Account 3300, Accumulated Depreciation--Nonoperating.)

(c) * * *

(d) This account shall be credited with amounts charged to Account 1438, Deferred maintenance, retirements, and other deferred charges, as provided in § 32.2000(g)(4) of this subpart. This account shall be credited with amounts charged to Account 6560 with respect to other than relatively minor losses in service values suffered through terminations of service when charges for such terminations are made to recover the losses.

Section 32.3200 Accumulated depreciation—held for future telecommunications use is amended by revising paragraph (b) to read as follows:

§ 32.3200 Accumulated depreciation—held for future telecommunications use.

* * * * *

(b) This account shall be credited with amounts concurrently charged to Account 6560, Depreciation and amortization expenses.

Section 32.3300 Accumulated depreciation—nonoperating is amended by revising paragraph (b) and (c) to read as follows:

§ 32.3300 Accumulated depreciation—nonoperating.

* * * * *

(b) This account shall be credited with amortization and depreciation amounts concurrently charged to Account 7300, Nonoperating income and expense.

(c) When nonoperating plant not previously used in telecommunications service is disposed of, this account shall be charged with the amount previously credited hereto with respect to such property and the book cost of the property so retired less the amount chargeable to this account and less the value of the salvage recovered or the proceeds from the sale of the property shall be included in Account 7300, Nonoperating income and expense. In case the property had been used in telecommunications service previous to its inclusion in Account 2006, Nonoperating Plant, the amount accrued for depreciation thereon after its retirement from telecommunications service shall be charged to this account and credited to Account 3100, Accumulated depreciation, and the accounting for its retirement from Account 2006 shall be in accordance with that applicable to telecommunications plant retired.

Section 32.3400 Accumulated amortization is deleted.

Section 32.3410 Accumulated amortization—capital leases is amended by revising paragraph (b) and (c) to read as follows:

§ 32.3410 Accumulated amortization—capital leases.

* * * * *

(b) This account shall be credited with amounts for the amortization of capital leases concurrently charged to Account 6560, Depreciation and amortization expenses. (Note also Account 3300, Accumulated Depreciation-- Nonoperating.)

(c) When any item carried in Account 2681 is sold, is relinquished, or is otherwise retired from service, this account shall be charged with the cost of the retired item. Remaining amounts associated with the item shall be debited to Account 7100, Other operating income and expenses, or Account 7300, Nonoperating income and expense, as appropriate.

Section 32.3420 Accumulated amortization—leasehold improvements is deleted.

Section 32.3500 Accumulated amortization—intangibles is deleted.

Section 32.3600 Accumulated amortization—other is deleted.

Section 32.4000 Instructions for balance sheet accounts—liabilities and stockholders' equity is redesignated as section 32.3999 and revised to read as follows:

§ 32.3999 Instructions for balance sheet accounts—liabilities and stockholders' equity.

Liabilities and Stockholders' Equity Accounts to be Maintained by Class A and Class B telephone companies

Account Title	Class A account	Class B account
Current liabilities:		
Current accounts and notes payable	4000	4000
Customer's Deposits	4040	4040
Income taxes--accrued	4070	4070
Other taxes--accrued	4080	4080
Net Current Deferred Nonoperating Income Taxes	4100	4100
Net Current Deferred	4110	4110

Nonoperating Income Taxes		
Other current liabilities	4130	4130
Long-term debt:		
Long Term debt and Funded debt	4200	4200
Other liabilities and deferred credits:		
Other liabilities and deferred credits	4300	4300
Unamortized operating investment tax credits-net	4320	4320
Unamortized nonoperating investment tax credits-net	4330	4330
Net noncurrent deferred operating income taxes	4340	4340
Net deferred tax liability adjustments	4341	4341
Net noncurrent deferred nonoperating income taxes	4350	4350
Deferred tax regulatory adjustments--net	4361	4361
Other jurisdictional liabilities and deferred credits-net	4370	4370
Stockholder's equity:		
Capital stock	4510	4510
Additional paid-in capital	4520	4520
Treasury stock	4530	4530
Other capital	4540	4540
Retained Earnings	4550	4550

Section 32.4000 Current accounts and notes payable is added to read as follows:

§ 32.3400 Current accounts and notes payable.

(a) This account shall include:

(1) All amounts currently due to others for recurring trade obligations, and not provided for in other accounts, such as those for traffic settlements, material and supplies, repairs to telecommunications plant, matured rents, and interest payable under monthly settlements on short-term loans, advances, and open accounts. It shall also include amounts of taxes payable that have been withheld from employees' salaries.

(2) Accounts payable arising from sharing of revenues.

(3) The face amount of notes, drafts, and other evidences of indebtedness issued or assumed by the company (except interest coupons) which are payable on demand or not more than one year or less from date of issue.

(b) If any part of an obligation, otherwise includable in this account matures more than one year from date of issue, it shall be included in Account 4200, Long term debt and funded debt, or other appropriate account.

(c) The records supporting the entries to this account shall be kept so that the company can furnish complete details as to each note, when it is issued, the consideration received, and when it is payable.

(d) Subsidiary record categories shall be maintained for this account in order that the company may separately report the amounts contained herein that relate to nonaffiliates and affiliates. Such subsidiary record categories shall be reported as required by Part 43 of this Commission's Rules and Regulations.

Section 32.4010 Accounts payable is deleted.

Section 32.4020 Notes payable is deleted.

Section 32.4030 Advanced billing and payments is deleted.

Section 32.4040 Customer's deposits paragraph (b) is amended to read as follows:

§ 32.4040 Customer's deposits.

* * * * *

(b) Advance payments made by prospective customers prior to the establishment of service shall be credited to Account 4130, Other current liabilities.

Section 32.4050 Current maturities—long term debt is deleted.

Section 32.4060 Current maturities—capital leases is deleted.

Section 32.4070 Income taxes—accrued is amended and revised to read as follows:

§ Section 32.4070 Income taxes—accrued.

(a) This account shall be credited or charged and the following accounts shall be charged or credited with the offsetting amount of current year income taxes (Federal, state and local) accrued during the period or adjustments to prior accruals:

7220 Operating Federal Income Taxes

7230 Operating State and Local Income Taxes

7400 Nonoperating Taxes

7600 Extraordinary Items

(b) If significant, current year income taxes paid in advance shall be reclassified to Account 1280, Prepayments.

Section 32.4080 Other taxes—accrued is amended and revised to read as follows:

§ 32.4080 Other taxes—accrued.

(a) This account shall be credited or charged and Account 7240, Operating Other Taxes, or 7400, Nonoperating Taxes, or, for payroll related costs, the appropriate expense accounts shall be charged or credited for all taxes, other than Federal, State and local income taxes, accrued or adjusted for previous accruals during the period. Among the taxes includable in this account are property, gross receipts, franchise, capital stock, social security and unemployment taxes.

(b) Taxes paid in advance of the period in which they are chargeable to income shall be included in the prepaid taxes Account 1280, Prepayments, or 1410, Other Noncurrent Assets, as appropriate.

Section 32.4110 Net current deferred nonoperating income taxes is amended by revising paragraph (c) and (f) to read as follows:

§ 32.4110 Net current deferred nonoperating income taxes.

* * * * *

(c) This account shall be debited or credited with the amount being credited or debited to Account 7400, Nonoperating taxes, in accordance with that account's description and § 32.22 of Subpart B.

(d) * * *

(e) * * *

(f) This account shall be debited or credited with the amount being credited and debited to Account 7600, Extraordinary Items.

* * * * *

Section 32.4120 Other accrued liabilities is deleted.

Section 32.4130 Other current liabilities is amended and revised to read as follows:

§ 32.4130 Other current liabilities.

(a) This account shall include:

(1) The amount of advance billing creditable to revenue accounts in future months; also advance payments made by prospective customers prior to the establishment of service. Amounts included in this account shall be credited to the appropriate revenue accounts in the months in which the service is rendered or cleared from this account as refunds are made.

(2) The amount (including any obligations for premiums) of long-term debt matured and unpaid without any specific agreement for extension of maturity, including unrepresented bonds drawn for redemption through the operation of sinking and redemption fund agreements.

(3) The current portion of obligations applicable to property obtained under capital leases.

(4) The amount of wages, compensated absences, interest on indebtedness of the company, dividends on capital stock, and rents accrued to the date for which the balance sheet is made, but not payable until after that date. Accruals shall be maintained so as to show separately the amount and nature of the items accrued to the date of the balance sheet.

(5) Matured rents, dividends, interest payable under monthly settlements on short-term loans, advances, and open accounts shall be included in Account 4000.

(6) All other liabilities of current character which are not included in Account 4000 through 4110.

Section 32.4200 Long term debt and funded debt is added to read as follows:

§ 32.4200 Long term debt and funded debt.

(a) This account shall include:

(1) The total face amount of unmatured debt maturing more than one year from date of issue, issued by the company and not retired, and the total face amount of similar unmatured debt of other companies, the payment of which has been assumed by the company, including funded debt the maturity of which has been extended by specific agreement. This account shall also include such items as mortgage bonds, collateral trust bonds, income bonds, convertible debt, debt securities with detachable warrants and other similar obligations maturing more than one year from date of issue.

(2) The premium associated with all classes of long-term debt. Premium, as applied to securities issued or assumed by the company, means the excess of the current money value received at their sale over the sum of their book or face amount and interest or dividends accrued at the date of the sale.

(3) The discount associated with all classes of long-term debt. Discount, as applied to securities issued or assumed by the company, means the excess of the book or face amount of the securities plus interest or dividends accrued at the date of the sale over the current money value of the consideration received at their sale.

(4) The face amount of debt reacquired prior to maturity that has not been retired. Gain or loss shall be recognized at the time of reacquisition by credits or charges to Account 7300, Nonoperating income and expense, except that material gains or losses shall be treated as extraordinary. (See Account 7600, Extraordinary items.)

(5) The noncurrent portion of obligations applicable to property obtained under capital leases. Amounts subject to current settlement shall be included in Account 4130, Other current liabilities.

(6) The amount of advance from affiliated companies. Amounts due affiliated companies which are subject to current settlement shall be included in Account 4000.

(7) Investment advances, including those represented by notes.

(8) Long-term debt not provided for elsewhere.

(b) Subsidiary records shall be maintained for each issue. The subsidiary records shall identify the premium or discount attributable to each issue.

(c) Premiums and discounts on long-term debt recorded in this account shall be amortized monthly by the interest method and charged or credited, as appropriate, to Account 7500, Interest and related items.

(d) Debt securities with detachable warrants shall be accounted for in accordance with generally accepted accounting principles.

(e) Securities maturing in one year or less, including securities maturing serially, shall be included in Account 4130, Other current liabilities.

Section 32.4210 Funded debt is deleted.

Section 32.4220 Premium on long term debt is deleted.

Section 32.4230 Discount on long term debt is deleted.

Section 32.4240 Reacquired debt is deleted.

Section 32.4250 Obligations under capital leases is deleted.

Section 32.4260 Advances from affiliated companies is deleted.

Section 32.4270 Other long-term debt is deleted.

Section 32.4300 Other long-term liabilities and deferred credits is added to read as follows:

§ 32.4300 Other long-term liabilities and deferred credits.

(a) This account shall include amounts accrued to provide for such items as unfunded pensions (if actuarially determined), death benefits, deferred compensation costs and other long-term liabilities not provided for elsewhere. Subsidiary records shall be maintained to identify the nature of these items.

(b) This account shall include the amount of all deferred credits not provided for elsewhere, such as amounts awaiting adjustment between accounts; and revenue, expense, and income items in suspense.

Section 32.4310 Other long-term liabilities is deleted.

Section 4330 Unamortized nonoperating investment tax credits—net is amended to read as follows:

§ 32.4330 Unamortized nonoperating investment tax credits--net.

(a) This account shall be credited and Account 7400, Nonoperating Taxes, shall be debited with investment tax credits generated from qualified expenditures related to other operations which the company has elected to defer rather than recognize currently in income.

(b) This account shall be debited and Account 7400 credited with a proportionate amount determined in relation to the useful book life of the property to which the tax credit relates.

Section 32.4341 Net deferred tax liability adjustments is amended to read as follows:

§ 32.4341 Net deferred tax liability adjustments.

(a) This account shall include the portion of deferred income tax charges and credits pertaining to Account 32.4361, Deferred tax regulatory adjustments--net.

(b) * * *

(2) Reclassification attributable to changes in tax rates (Federal, state and local). As tax rates increase or decrease, the offsetting debit or credit will be recorded in Account 4361 as required by paragraph (a) of this section.

* * * * *

Section 32.4350 Net noncurrent deferred nonoperating income taxes is amended to read as follows:

§ 32.4350 Net noncurrent deferred nonoperating income taxes.

* * * * *

(b) This account shall be credited or debited, as appropriate, and Account 7400, Nonoperating Taxes, shall reflect the offset for the tax effect of revenues from other operations and extraordinary items and nonoperating expenses which have been included in the determination of taxable income, but which will not be included in the determination of book income or for the tax effect of nonoperating expenses and extraordinary items and nonoperating income which have been included in the

determination of book income prior to the inclusion in the determination of taxable income.

(c) * * *

(d) * * *

(e) This account shall be charged or credited with the contra amount recorded to Account 7600, Extraordinary items, in accordance with § 32.22 of subpart B.

* * * * *

Section 32.4360 Other deferred credits is deleted.

Section 32.4361 Deferred tax regulatory liability is renamed Deferred tax regulatory adjustments—net and revised to read as follows:

§ 32.4361 Deferred tax regulatory adjustments--net.

(a) This account shall include amounts of probable future revenue for the recovery of future increases in taxes payable and amounts of probable future revenue reductions attributable to future decreases in taxes payable. As reductions or reversals occur, amounts recorded in this account shall be reduced or increased, with a contra entry being made to Account 4341, Net deferred tax liability adjustments.

(b) This account shall also be adjusted for the impact of prospective tax rate changes on the deferred tax liability for those temporary differences underlying its existing balance.

Section 32.4540 Other capital is amended to read as follows:

§ 32.4540 Other capital.

This account shall include amounts which are credits arising from the donation by stockholders of the company's capital stock, capital recorded upon the reorganization or recapitalization of the company and temporary declines in the value of marketable securities held for investment purposes. (See also Account 1410, Other noncurrent assets).

Subpart D--Instructions for Revenue Accounts

Section 32.4999 General is amended by eliminating paragraph (f)(2) and (g)(3), redesignating paragraph (g)(4) as (g)(3), and revising paragraphs (c), (d), (e), (g)(2), (h), (i)(1), and (n) to read as follows:

§ 32.4999 General

* * * * *

(c) *Commissions.* Commissions paid to others or employees in place of compensation or salaries for services rendered, such as public telephone commissions, shall be charged to Account 6620 Services, and not to the revenue accounts. Other commissions shall be charged to the appropriate expense accounts.

(d) *Revenue recognition.* Credits shall be made to the appropriate revenue accounts when such revenue is actually earned. When the billing cycle encompasses more than one accounting period, adjustments are necessary to properly recognize the revenue applicable to the current accounting period under report. Revenues recorded under the terms of two-tier contracts or other variable payment plans should be deferred, if necessary, and recognized ratably with expenses over the terms of the related contract. Any amounts deferred shall be credited to Account 4300, Other long-term liabilities and deferred credits.

(e) *Contractual arrangements.* Charges and credits resulting from activities associated with the provisions of regulated telecommunications services shall be recorded in a manner consistent with the nature of the underlying contractual arrangements. The charges and credits resulting from expense sharing or apportionment arrangements associated with the provision of regulated telecommunications services shall be recorded in the detailed regulated accounts. Charges and credits resulting from revenue settlement agreements or other revenue pooling arrangements associated with the provision of regulated telecommunications services shall be included in the appropriate revenue accounts. Those charges and credits resulting from contractual revenue pooling and/or sharing agreements shall be recorded in each prescribed revenue account and prescribed subsidiary record categories thereof to the extent that each is separately identifiable in the settlement process. It is not intended that settlement amounts be allocated or generally spread to the individual revenue accounts where they are not separately identifiable in the settlement process. When the settlement amounts are not identifiable by a revenue account they shall be recorded in Account 5060, Other basic area revenue, 5105, Long distance message revenue, or 5200, Miscellaneous revenue, as appropriate.

(f) * * *

(2) [Deleted]

(g) * * *

(2) The revenue section of this system of accounts shall be comprised of six major groups--Local Network Services Revenues, Network Access Services Revenues, Long

Distance Network Services Revenues, Miscellaneous Revenues, Nonregulated revenues, and Uncollectible Revenues, which shall be considered as a revenue group for the purposes of the construction of the system.

(3) Accounts shall be maintained as prescribed in this Section subject to the conditions described in section 32.13 of subpart B. In certain instances, subsidiary record categories may be required below the account level by this system of accounts or by Commission order.

(4) [Deleted]

(h) *Local Network Services revenues.* Local Network Services revenues (Accounts 5001-5060) shall include revenues derived from the provision of service and equipment entirely within the basic service area. That area is defined as the normal boundaries for local calling plus Extended Area Service (EAS) boundaries as they apply to that service. It includes revenues derived from both local private network service and local public network services as well as from customer premises facilities services. Local revenues include associated charges such as one-time service connection or termination charges and secondary features such as call waiting.

(i) *Network Access revenues.* (1) Network Access revenues (Accounts 5081-5083) shall include revenues derived from the provision of exchange access services to an interexchange carrier or to an end user of telecommunications services beyond the exchange carrier's network.

(i)(2) * * *

(j) * * *

(k) * * *

(l) * * *

(m) * * *

(n) Revenue accounts to be maintained.

Account Title	Class A account	Class B account
Local Network Services Revenues:		
Basic local service revenue		5000
Basic area revenue	5001	.....
Private line revenue	5040	.....
Other basic area revenue	5060	.....
Network Access Service Revenues:		

End User Revenue	5081	5081
Switched access revenue	5082	5082
Special Access revenue	5083	5083
Long Distance Network Services Revenues:		
Long distance message revenue	5105	5105
Miscellaneous Revenues:		
Miscellaneous revenue	5200	5200
Nonregulated Revenues:		
Nonregulated operating revenue	5280	5280
Uncollectible Revenues:		
Uncollectible revenue	5300	5300

Section 32.5000 Basic local service revenue is amended to read as follows:

§ 32.5000 Basic local service revenue.

Class B telephone companies shall use this account for revenues of the type and character required of Class A companies in Accounts 5001 through 5060.

Section 32.5001 Basic area revenue is amended to read as follows:

§ 32.5001 Basic area revenue.

(a) This account shall include revenue derived from the provision of the following:

(1) Basic area message services such as flat rate services and measured services. Included is revenue derived from non-optional extended area services. Also included is revenue derived from the billed or guaranteed portion of semi-public services.

(2) Optional extended area service.

(3) Cellular mobile telecommunications systems connected to the public switched network placed between mobile units and other stations within the mobile service area.

(4) General radio telecommunications systems connected to the public switched network placed between mobile units and other stations within the

mobile service area, as well as revenue from mobile radio paging, mobile dispatching, and signaling services.

(b) Revenue derived from charges for nonpublished number or additional and boldfaced listings in the alphabetical section of the company's telephone directories shall be included in Account 5200, Miscellaneous revenue.

(c) Revenue from private mobile telephone services which do not have access to the public switched network shall be included in Account 5200, Miscellaneous revenue.

Section 32.5004 Other mobile services revenue is deleted.

Section 32.5040 Local private line revenue is renamed as follows:

§ 32.5040 Private line revenue.

Section 32.5050 Customer premises revenue is deleted.

Section 32.5060 Other local exchange revenue is renamed and revised to read as follows:

§ 32.5060 Other basic area revenue.

(a) This account shall include:

(1) Revenue from the provision of secondary features which are integrated with the telecommunications network such as call forwarding, call waiting and touch-tone line service. Also included is revenue derived from the provision of public announcement and other record message services, directory assistance and other call completion services (excluding operator assisted basic long distance calls), as well as revenue derived from central office related service connection and termination charges, and other non-premise customer specific charges associated with public network services. This account shall also include local revenue not provided for in other accounts.

(2) Charges and credits resulting from contractual revenue pooling and/or sharing agreements for tariffed local network services only when they are not separately identifiable by local network services revenue accounts in the settlement process. (See also § 32.4999(e) of this subpart.) To the extent that the charges and credits resulting from a settlement process can be identified by Local Network Services Revenue account they shall be recorded in the applicable account.

(3) Revenue derived from tariffed information origination/termination plant. Included is revenue derived from the provision under leasing arrangements of tariffed

customer premises equipment (CPE), terminal equipment, station apparatus and large private branch exchanges as well as tariffed nonrecurring charges related solely to station apparatus. Also included are all tariffed charges for customer premises activities and facilities not related solely to station apparatus.

Section 32.5069 Other local exchange revenue settlements is deleted.

Section 32.5080 Network access revenue is deleted.

Section 32.5081 End user revenue is revised to read as follows:

§ 32.5081 End user revenue.

(a) This account shall contain federally and state tariffed monthly flat rate charge assessed upon end users.

(b) Subsidiary record categories shall be maintained in order that the company may separately report amounts related to federal and state tariffed charges.

Section 32.5082 Switched access revenue is revised to read as follows:

§ 32.5082 Switched access revenue.

(a) This account shall consist of federally and state tariffed charges assessed to interexchange carriers for access to local exchange facilities.

(b) Subsidiary record categories shall be maintained in order that the company may separately report the amounts contained herein that relate to limited pay telephone, carrier common line, line termination, local switching, intercept, information, common transport and dedicated transport. The subsidiary records shall also separately show the federal and state tariffed charges. Such subsidiary record categories shall be reported as required by part 43 of this Commission's Rules and Regulations.

Section 32.5083 Special access revenue is revised to read as follows:

§ 32.5083 Special access revenue.

(a) This account shall include all federally and state tariffed charges assessed for other than end user or switched access charges referred to in Account 5081, End user revenue, and Account 5082, Switched access revenue.

(b) Subsidiary record categories shall be maintained in order that the company may separately report the amounts contained herein that relate to recurring charges, nonrecurring charges and surcharges. The subsidiary records shall also separately show the federal and state tariffed charges. Such subsidiary record categories shall be reported as required by part 43 of this Commission's Rules and Regulations.

Section 32.5084 State access revenue is deleted.

Section 32.5100 Long distance message revenue is renumbered and revised to read as follows:

§ 32.5105 Long distance message revenue

This account shall include revenue derived from message services that terminate beyond the basic service area of the originating wire center and are individually priced. This includes those message services which utilize the public long distance switching network and the basic subscriber access line. It also includes those long distance calls placed from mobile and public telephones, as well as any charges for operator assistance or special billing directly related to the completion of a specific call. This account shall also include revenue derived from individually priced message services offered under calling plans (discounted long distance) which do not utilize dedicated access lines, as well as those priced at the basic long distance rates where a discounted toll charge is on a per message basis. Any revenue derived from monthly or one-time charges for obtaining calling plan services shall be included in this account. This account includes revenue derived from the following services:

(a) Long distance services which permit unidirectional calls to a subscriber from specified services areas (multipoint-to-point service). These calls require the use of dedicated access lines connecting a subscriber's premises and a designated central office. These dedicated access lines are generally separate from those required for the subscriber to place outward calls. The call is billed to the subscriber even though it is generally initiated by the subscriber's customer or correspondent.

(b) Long distance services which permit the subscriber to place telephone calls from one location to other specified service areas (point-to-multipoint service). These calls are completed without operator assistance and require the use of a dedicated access line. The dedicated access line is generally separate from those required for inward message services and cannot be used to place calls within the basic service area or calls outside the selected service areas. Outward calls are screened and blocked to determine whether the calls are within an authorized service area.

(c) Services extending beyond the basic service area that involve dedicated circuits, private switching arrangements, and/or predefined transmission paths, whether virtual or physical, which provide communications between specific locations (e.g.,

point-to-point communications). Service connection charges, termination charges, rearrangements and changes, etc., shall be included in this account. Revenue derived from associated administrative and operational support services shall also be included in this account.

(1) Narrow-band analog private network circuits and facilities furnished exclusively for record forms of communications, such as teletypewriter, teletypesetter, telewriter, ticker, Morse, signaling, remote metering, and supervisory services.

(2) Private network circuits and facilities (including multipurpose wide-band) which provide voice grade services for the transmission of analog signals. It includes revenue from services such as voice, data and telephoto communication, as well as remote metering, supervisory control, miscellaneous signaling and channels furnished for the purpose of extending customer--provided communications systems. It includes revenue from the provision of facilities between customer premises and (a) a serving office, (b) a carrier distribution point or (c) an extension distribution channel.

(3) Private network circuits and facilities furnished for audio program transmission purposes, such as radio broadcasting, sound recording (wired music) and loud speaker services. It includes revenue from the provision of facilities for the transmission of analog signals between customer premises and (1) a serving office, (2) a carrier distribution point or (3) an extension distribution channel furnished in connection with such services. It also includes revenue from facilities furnished to carry the audio portion of a television program if furnished under separate audio rates. If the rate for television program services includes both the picture and sound portion of the transmission, the revenue shall also be included in this account.

(4) Private network circuits and facilities furnished for television program transmission purposes, such as commercial broadcast and educational or private television services. It includes revenue from the provision of facilities for the transmission of analog signals between customer premises and (a) a serving office, (b) a carrier distribution point or (c) an extension distribution channel furnished in connection with such services. It also includes revenue from both the picture and sound portions of transmission for television program service when provided under a combined rate schedule.

(5) The provision of circuits and facilities for the transmission of digital signals only.

(6) The provision of common user channels and switching capabilities used for the transmission of telecommunication signals between three (3) or more points in the network. Also included is revenue derived from the provision of basic switching and transfer arrangements used to connect private line channels.

(7) Charges and credits resulting from contractual revenue pooling and/or sharing agreements for tariffed long distance public network services and for tariffed long distance private network services.

Section 32.5110 Unidirectional long distance revenue is deleted.

Section 32.5111 Long distance inward-only revenue is deleted.

Section 32.5112 Long distance outward-only revenue is deleted.

Section 32.5120 Long distance private network revenue is deleted.

Section 32.5121 Subvoice grade long distance private network revenue is deleted.

Section 32.5122 Voice grade long distance private network revenue is deleted.

Section 32.5123 Audio program grade long distance private network revenue is deleted.

Section 32.5124 Video program grade long distance private network revenue is deleted.

Section 32.5125 Digital transmission long distance private network revenue is deleted.

Section 32.5126 Long distance private network switching revenue is deleted.

Section 32.5128 Other long distance private network revenue is deleted.

Section 32.5129 Other long distance private network revenue settlements is deleted.

Section 32.5160 Other long distance revenue is deleted.

Section 32.5169 Other long distance revenue settlements is deleted.

Section 32.5200 Miscellaneous revenue is revised to read as follows:

§ 32.5200 Miscellaneous revenue

(a) This account shall include revenue derived from the following:

(1) Alphabetical and classified sections of directories including fees paid by other entities for the right to publish the company's directories. It includes the classified section of the directories, the sale of new telephone directories whether they are the company's own directories or directories purchased from others. It also includes revenue from the sale of specially bound telephone directories and special telephone directory covers; amounts charged for additional and boldface listings, marginal displays, inserts, and other advertisements in the alphabetical of the company's telephone directories; and charges for unlisted and non-published telephone numbers.

(2) Rental or subrental to others of telecommunications plant furnished apart from telecommunications services rendered by the company (This revenue includes taxes when borne by the lessee). It includes revenue from the rent of such items as space in conduit, pole line space for attachments, and any allowance for return on property used in joint operations and shared facilities agreements. The expense of maintaining and operating the rented property, including depreciation and insurance, shall be included in the appropriate operating expense accounts. Taxes applicable to the rented property shall be included by the owner of the rented property in appropriate tax accounts. When land or buildings are rented on an incidental basis for non-telecommunications use, the rental and expenses are included in Account 7300, Nonoperating income and expense.

(3) Services rendered to other companies under a license agreement, general services contract, or other arrangement providing for the furnishing of general accounting, financial, legal, patent, and other general services associated with the provision of regulated telecommunications services.

(4) The provision, either under tariff or through contractual arrangements, of special billing information to customers in the form of magnetic tapes, cards or statements. Special billing information provides detail in a format and/or at a level of detail not normally provided in the standard billing rendered for the regulated telephone services utilized by the customer.

(5) The performance of customer operations services for others incident to the company's regulated telecommunications operations which are not provided for elsewhere. (See also §§ 32.14(e) and 32.4999(e) of this part.)

(6) Contract services (plant maintenance) performed for others incident to the company's regulated telecommunications operations. This includes revenue from the incidental performance of nontariffed operating and maintenance activities for others which are similar in nature to those activities which are performed by the company in operating and maintaining its own telecommunications plant facilities. The records supporting the entries in this account shall be maintained with sufficient particularity to identify the revenue and associated Plant Specific Operations Expenses related to each

undertaking. This account does not include revenue related to the performance of operation or maintenance activities under a joint operating agreement.

(7) The provision of billing and collection services to other telecommunications companies. This includes amounts charged for services such as message recording, billing, collection, billing analysis, and billing information services, whether rendered under tariff or contractual arrangements.

(8) Charges and credits resulting from contractual revenue pooling and/or sharing agreements for activities included in the miscellaneous revenue accounts only when they are not identifiable by miscellaneous revenue account in the settlement process. (See also § 32.4999(e) of this subpart.) The extent that the charges and credits resulting from a settlement process can be identified by miscellaneous revenue accounts they shall be recorded in the applicable account.

(9) The provision of transport and termination of local telecommunications traffic pursuant to section 251(c) and Part 51 of these rules.

(10) The provision of unbundled network elements pursuant to section 251(c) of the Communications Act and Part 51 of these rules.

(11) This account shall also include other incidental regulated revenue such as:

(i) Collection overages (collection shortages shall be charged to Account 6620, Services.)

(ii) Unclaimed refunds for telecommunications services when not subject to escheats;

(iii) Charges (penalties) imposed by the company for customer checks returned for non-payment;

(iv) Discounts allowed customers for prompt payment;

(v) Late-payment charges;

(vi) Revenue from private mobile telephone services which do not have access to the public switched network; and

(vii) Other incidental revenue not provided for elsewhere in other Revenue accounts.

(12) Any definitely known amounts of losses of revenue collections due to fire or theft, (i) at customers' coin-box stations, (ii) at public or semipublic telephone stations, (iii) in the possession of collectors en route to collection offices, (iv) on hand at collection offices,

and (v) between collection offices and banks shall be charged to Account 6720, General and Administrative.

Section 32.5230 Directory revenue is deleted.

Section 32.5240 Rent revenue is deleted.

Section 32.5250 Corporate operations revenue is deleted.

Section 32.5260 Miscellaneous revenue is deleted.

Section 32.5261 Special billing arrangements revenue is deleted.

Section 32.5262 Customer operations revenue is deleted.

Section 32.5263 Plant operations revenue is deleted.

Section 32.5264 Other incidental regulated revenue is deleted.

Section 32.5269 Other revenue settlements is deleted.

Section 32.5270 Carrier billing and collection revenue is deleted.

Section 32.5280 Nonregulated operating revenue is amended to revise paragraph (c) as follows:

§ 32.5280 Nonregulated operating revenue.

* * * * *

(c) Separate subsidiary record categories shall be maintained for two groups of nonregulated revenue as follows: one subsidiary record for all revenues derived from regulated services treated as nonregulated for federal accounting purposes pursuant to Commission order and the second for all other revenues derived from a nonregulated activity as set forth in (a).

Section 32.5300 Uncollectible revenue is revised to read as follows:

§ 32.5300 Uncollectible revenue.

This account shall be charged with amounts concurrently credited to Account 1170, Receivables.

Section 32.5301 Uncollectible revenue—telecommunications is deleted.

Section 32.5302 Uncollectible revenue—other is deleted.

Section 32.5999 General is amended by deleting paragraph (a)(3), redesignating (a)(4) as (a)(3), and revising paragraphs (b)(4), (c), and (g) as follows:

§ 32.5999 General.

(a) * * *

(3) [Deleted]

(4) redesignated to read (a)(3)

(b)* * *

(4) In addition to the activities specified in paragraph (b)(3) of this section, the appropriate Plant Specific Operations Expense accounts shall include the cost of personnel whose principal job is the operation of plant equipment, such as general purpose computer operators, aircraft pilots, chauffeurs and shuttle bus drivers. However, when the operation of equipment is performed as part of other identifiable functions (such as the use of office equipment, capital tools or motor vehicles) the operators' cost shall be charged to accounts appropriate for those functions. (For costs of operator services personnel, see Account 6620, Services, and for costs of test board personnel see Account 6533.)

(c) Plant Nonspecific Operations Expense. The Plant Nonspecific Operations Expense accounts shall include expenses related to property held for future telecommunications use, provisioning expenses, network operations expenses, and depreciation and amortization expenses. Accounts in this group (except for Account 6540, Access expense, and Account 6560, Depreciation and amortization expense) shall include the costs of performing activities described in narratives for individual accounts. These costs shall also include the costs of supervision and office support of these activities.

(d) * * *

(e) * * *

(f) * * *

(g) *Expense accounts to be maintained.*

Account Title	Class A account	Class B account
Income Statement Accounts		
Plant specific operations expense:		
Network support expense		6110
Motor Vehicle Expense	6112	....
Aircraft expense	6113	....
Tools and other work equipment expense	6114	....
General support expenses		6120
Land and Building expenses	6121	....
Furniture and artworks expense	6122	....
Office equipment expense	6123	....
General purpose computers expense	6124	....
Central Office switching expense		6210
Non-digital switching expense	6211	....
Digital electronic switching expense	6212	....
Operators system expense	6220	6220
Central office transmission expenses		6230
Radio systems expense	6231	....
Circuit equipment expense	6232	....
Information origination/termination expense		6310
Station apparatus expense	6311	....
Large private branch exchange expense	6341	....
Public telephone terminal equipment expense	6351	....
Other terminal equipment	6362	....

expense		
Cable and wire facilities expenses		6410
Poles expense	6411	....
Aerial cable expense	6421	....
Underground cable expense	6422	....
Buried cable expense	6423	....
Submarine and deep sea cable expense	6424	....
Intrabuilding network cable expense	6426	....
Aerial wire expense	6431	....
Conduit systems expense	6441	....
Plant nonspecific operations expense:		
Other property plant and equipment expenses		6510
Property held for future Telecommunications use expense	6511	...
Provisioning expense	6512	....
Network operations expenses		6530
Power expense	6531	....
Network administration expense	6532	....
Testing expense	6533	....
Plant operations administration expense	6534	....
Engineering expense	6535	....
Access expense	6540	6540
Depreciation and amortization expenses	6560	6560
Customer operations expense:		
Marketing		6610
Product management and sales	6611	
Product advertising	6613	
Services	6620	6620
Corporate operations expense:		
General and administrative	6720	6720
Provision for uncollectible	6790	6790

notes receivable		
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Section 32.6110 Network support expenses is revised to read as follows:

§ 32.6110 Network support expenses.

(a) Class B telephone companies shall use this account for expenses of the type and character required of Class A companies in Accounts 6112 through 6114.

(b) Credits shall be made to this account by Class B companies for amounts transferred to Construction and/or other Plant Specific Operations Expense accounts. These amounts shall be computed on the basis of direct labor hours.

Section 32.6112 Motor vehicle expense is amended by revising paragraph (b) as follows:

§ 32.6112 Motor vehicle expense.

* * * * *

(b) Credits shall be made to this account for amounts transferred to Construction and/or to other Plant Specific Operations Expense accounts. These amounts shall be computed on the basis of direct labor hours.

Section 32.6113 Aircraft expense is amended by revising paragraph (b) as follows:

§ 32.6113 Aircraft expense.

* * * * *

(b) Credits shall be made to this account for amounts transferred to Construction and/or to other Plant Specific Operations Expense accounts. These amounts shall be computed on the basis of direct labor hours.

Section 32.6114 Tools and other work equipment expense is amended by revising paragraph (b) as follows:

§ 32.6114 Tools and other work equipment expense.

* * * * *

(b) Credits shall be made to this account for amounts related to special purpose vehicles and other work equipment transferred to

Construction and/or to other Plant Specific Operations Expense accounts. These amounts shall be computed on the basis of direct labor hours.

Section 32.6120 General support expenses is revised to read as follows:

§ 32.6120 General support expenses.

Class B telephone companies shall use this account for expenses of the type and character required of Class A companies in Accounts 6121 through 6124.

Section 32.6124 General purpose computers expense is revised to read as follows:

§ 32.6124 General purpose computers expense.

This account shall include the costs of personnel whose principal job is the physical operation of general purpose computers and the maintenance of operating systems. This excludes the cost of preparation of input data or the use of outputs which are chargeable to the accounts appropriate for the activities being performed. Also excluded are costs incurred in planning and maintaining application systems and databases for general purpose computers. (See also § 32.6720, General and administrative.) Separately metered electricity for general purpose computers shall also be included in this account.

Section 32.6210 Central office switching expenses is revised to read as follows:

§ 32.6210 Central office switching expenses.

Class B telephone companies shall use this account for expenses of the type and character required of Class A companies in Accounts 6211 through 6212.

Section 32.6211 Analog electronic expense is renamed and revised to read as follows:

§ 32.6211 Non-digital switching expense.

This account shall include expenses associated with non-digital electronic switching and electro-mechanical switching.

Section 32.6212 Digital electronic expense is renamed and revised to read as follows:

§ 32.6212 Digital electronic switching expense.

(a) This account shall include expenses associated with digital electronic switching. Digital electronic switching expenses shall be maintained in the following subaccounts:

- 6212.1 Circuit
- 6212.2 Packet

(b) *6212.1 Circuit*. This subaccount shall include expenses associated with digital electronic switching equipment used to provide circuit switching.

(c) *6212.2 Packet*. This subaccount shall include expenses associated with digital electronic switching equipment used to provide packet switching.

Section 32.6215 Electro-mechanical expense is deleted.

Section 32.6230 Central office transmission expense is revised to read as follows:

§ 32.6230 Central office transmission expense.

Class B telephone companies shall use this account for expenses of the type and character required of Class A companies in Accounts 6231 and 6232.

Section 32.6231 Radio systems expense is amended by deleting paragraph (b).

§ 32.6231 Radio systems expense.

(a) * * *

(b) [Deleted]

Section 32.6232 Circuit equipment expense is revised to read as follows:

§ 32.6232 Circuit equipment expense.

(a) This account shall include expenses associated with circuit equipment. Circuit equipment expenses shall be maintained in the following subaccounts:

- 6232.1 Electronic
- 6232.2 Optical

(b) *6232.1 Electronic*. This subaccount shall include expenses associated with electronic circuit equipment.

(c) 6232.2 *Optical*. This subaccount shall include expenses associated with optical circuit equipment.

Section 32.6310 Information origination/termination expenses is revised to read as follows:

§ 32.6310 Information origination/termination expenses.

Class B telephone companies shall use this account for expenses of the type and character required of Class A telephone companies in Accounts 6311 through 6362.

Section 32.6410 Cable and wire facilities expenses is revised to read as follows:

§ 32.6410 Cable and wire facilities expenses.

Class B telephone companies shall use this account for expenses of the type and character required of Class A companies in Accounts 6411 through 6441.

Section 32.6424 Submarine cable expense is renamed and revised to read as follows:

§ 32.6424 Submarine and deep sea cable expense.

(a) This account shall include expenses associated with submarine and deep sea cable.

(b) Subsidiary record categories shall be maintained as provided in § 32.2424 (a) of subpart C.

Section 32.6425 Deep sea cable expense is deleted.

Section 32.6510 Other property, plant and equipment expenses is revised to read as follows:

§ 32.6510 Other property, plant and equipment expenses.

Class B telephone companies shall use this account for expenses of the type and character required of Class A companies in Accounts 6511 and 6512.

Section 32.6512 Provisioning expense is revised to read as follows:

§ 32.6512 Provisioning expense.

(a) This account shall include costs incurred in provisioning material and supplies, including office supplies. This includes receiving and stocking, filling requisitions from stock, monitoring and replenishing stock levels, delivery of material, storage, loading or unloading and administering the reuse or refurbishment of material. Also included are adjustments resulting from the periodic inventory of material and supplies.

(b) Credits shall be made to this account for amounts transferred to construction and/or to Plant Specific Operations Expense. These costs are to be cleared by adding to the cost of material and supplies a suitable loading charge.

Section 32.6530 Network operations expense is revised to read as follows:

§ 32.6530 Network operations expense.

Class B telephone companies shall use this account for expenses of the type and character required of Class A companies in Accounts 6531 through 6535.

Section 32.6560 Depreciation and amortization expenses is revised to read as follows:

§ 32.6560 Depreciation and amortization expenses.

(a) This account shall include:

(1) The depreciation expense of capitalized costs in Accounts 2112 through 2441, inclusive.

(2) The depreciation expense of capitalized costs included in Account 2002, Property held for future telecommunications use.

(3) The amortization of costs included in Accounts 2681, Capital leases, 2682, Leasehold improvements, and Account 2690, Intangibles.

(4) The amortization of costs included in Account 2005, Telecommunications plant adjustment, and lump-sum write-offs of amounts of plant acquisition adjustment as provided for in § 32.2005(b)(4) of Subpart C.

(b) Subsidiary records shall be maintained so as to show that character of the amounts related to plant acquisition adjustments.

Section 32.6561 Depreciation expense—telecommunications plant in service is deleted.

Section 32.6562 Depreciation expense—property held for future telecommunications is deleted.

Section 32.6563 Amortization expense—tangible is deleted.

Section 32.6564 Amortization expense—intangible is deleted.

Section 32.6565 Amortization expense—other is deleted.

Section 32.6610 Marketing is revised to read as follows:

§ 32.6610 Marketing.

Class B telephone companies shall use this account for expenses of the type and character required of Class A companies in Accounts 6611-6613.

Section 32.6611 Product management is renamed and revised to read as follows:

§ 32.6611 Product management and sales.

(a) This account shall include:

(1) Costs incurred in performing administrative activities related to marketing products and services. This includes competitive analysis, product and service identification and specification, test market planning, demand forecasting, product life cycle analysis, pricing analysis, and identification and establishment of distribution channels.

(2) Costs incurred in selling products and services. This includes determination of individual customer needs, development and presentation of customer proposals, sales order preparation and handling, and preparation of sales records.

Section 32.6612 Sales is deleted.

Section 32.6620 Services is amended by adding two subaccounts and is revised to read as follows:

§ 32.6620 Services.

(a) This account shall include:

(1) Costs incurred in helping customers place and complete calls, except directory assistance. This includes handling and recording; intercept; quoting rates, time and charges; and all other activities involved in the manual handling of calls.

(2) Costs incurred in providing customer number and classified listings. This includes preparing or purchasing, compiling, and disseminating those listings through directory assistance or other means.

(3) Costs incurred in establishing and servicing customer accounts. This includes:

(i) Initiating customer service orders and records;

(ii) Maintaining and billing customer accounts;

(iii) Collecting and investigating customer accounts, including collecting revenues, reporting receipts, administering collection treatment, and handling contacts with customers regarding adjustments of bills;

(iv) Collecting and reporting pay station receipts; and

(v) Instructing customers in the use of products and services.

(b) This account shall also include amounts paid by interexchange carriers or other exchange carriers to another exchange carrier for billing and collection services. Subsidiary record categories shall be maintained in order that the entity may separately report interstate and intrastate amounts. Such subsidiary record categories shall be reported as required by Part 43 of this Commission's Rules and Regulations.

(c) Class A companies, except mid-sized incumbent local exchange carriers, shall maintain the following subaccounts for expenses recorded in this account:

6620.1 Wholesale

6620.2 Retail

(1) *6620.1 Wholesale*. This subaccount shall include costs associated with telecommunications services provided for resale to other telecommunications carriers.

(2) *6620.2 Retail*. This subaccount shall include costs associated with telecommunications services provided to subscribers who are not telecommunications carriers.

Section 32.6621 Call completion services is deleted.

Section 32.6622 Number services is deleted.

Section 32.6623 Customer services is deleted.

Section 32.6710 Executive and planning is deleted.

Section 32.6711 Executive is deleted.

Section 32.6712 Planning is deleted.

Section 32.6720 General and administrative is revised to read as follows:

§ 32.6720 General and administrative.

This account shall include costs incurred in the provision of general and administrative services as follows:

(a) Formulating corporate policy and in providing overall administration and management. Included are the pay, fees and expenses of boards of directors or similar policy boards and all board-designated officers of the company and their office staffs, e.g., secretaries and staff assistants.

(b) Developing and evaluating long-term courses of action for the future operations of the company. This includes performing corporate organization and integrated long-range planning, including management studies, options and contingency plans, and economic strategic analysis.

(c) Providing accounting and financial services. Accounting services include payroll and disbursements, property accounting, capital recovery, regulatory accounting (revenue requirements, separations, settlements and corollary cost accounting), non-customer billing, tax accounting, internal and external auditing, capital and operating budget analysis and control, and general accounting (accounting principles and procedures and journals, ledgers, and financial reports). Financial services include

banking operations, cash management, benefit investment fund management (including actuarial services), securities management, debt trust administration, corporate financial planning and analysis, and internal cashier services.

(d) Maintaining relations with government, regulators, other companies and the general public. This includes:

(1) Reviewing existing or pending legislation (See also Account 7300, Nonoperating income and expense, for lobbying expenses.);

(2) Preparing and presenting information for regulatory purposes, including tariff and service cost filings, and obtaining radio licenses and construction permits;

(3) Performing public relations and non-product-related corporate image advertising activities;

(4) Administering relations, including negotiating contracts, with telecommunications companies and other utilities, businesses, and industries. This excludes sales contracts (See also Account 6611, Product management and sales.); and

(5) Administering investor relations.

(e) Performing personnel administration activities. This includes:

(1) Equal Employment Opportunity and Affirmative Action Programs;

(2) Employee data for forecasting, planning and reporting;

(3) General employment services;

(4) Occupational medical services;

(5) Job analysis and salary programs;

(6) Labor relations activities;

(7) Personnel development and staffing services, including counseling, career planning, promotion and transfer programs;

(8) Personnel policy development;

(9) Employee communications;

(10) Benefit administration;

(11) Employee activity programs;

(12) Employee safety programs; and

(13) Nontechnical training course development and presentation.

(f) Planning and maintaining application systems and databases for general purpose computers.

(g) Providing legal services. This includes conducting and coordinating litigation, providing guidance on regulatory and labor matters, preparing, reviewing and filing patents and contracts and interpreting legislation. Also included are court costs, filing fees, and the costs of outside counsel, depositions, transcripts and witnesses.

(h) Procuring material and supplies, including office supplies. This includes analyzing and evaluating suppliers' products, selecting appropriate suppliers, negotiating supply contracts, placing purchase orders, expediting and controlling orders placed for material, developing standards for material purchased and administering vendor or user claims.

(i) Making planned search or critical investigation aimed at discovery of new knowledge. It also includes translating research findings into a plan or design for a new product or process or for a significant improvement to an existing product or process, whether intended for sale or use. This excludes making routine alterations to existing products, processes, and other ongoing operations even though those alterations may represent improvements.

(j) Performing general administrative activities not directly charged to the user, and not provided for above. This includes providing general reference libraries, food services (e.g., cafeterias, lunch rooms and vending facilities), archives, general security investigation services, operating official private branch exchanges in the conduct of the business, and telecommunications and mail services. Also included are payments in settlement of accident and damage claims, insurance premiums for protection against losses and damages, direct benefit payments to or on behalf of retired and separated employees, accident and sickness disability payments, supplemental payments to employees while in governmental service, death payments, and other miscellaneous costs of a corporate nature. This account excludes the cost of office services, which are to be included in the accounts appropriate for the activities supported.

Section 32.6721 Accounting and finance is deleted.

Section 32.6722 External relations is deleted.

Section 32.6723 Human resources is deleted.

Section 32.6724 Information management is deleted.

Section 32.6725 Legal is deleted.

Section 32.6726 Procurement is deleted.

Section 32.6727 Research and development is deleted.

Section 32.6728 Other general and administrative is deleted.

Section 32.6790 Provision for uncollectible notes receivable is revised to read as follows:

§ 32.6790 Provision for uncollectible notes receivable.

This account shall be charged with amounts concurrently credited to Account 1170, Receivables.

Section 32.6999 General is revised to read as follows:

§ 32.6999 General.

(a) Structure of the Other Income Accounts. The Other Income Accounts are designed to reflect both operating and nonoperating income items including taxes, extraordinary items and other income and expense items not properly included elsewhere.

(b) Other Income Accounts Listing.

Account Title	Class A Account	Class B Account
Other operating income and expense:		
Other operating income and expense	7100	7100
Operating taxes:		
Operating taxes		7200
Operating investment tax credits-net	7210	....
Operating Federal income taxes	7220	....
Operating State and Local income taxes	7230	....

Operating other taxes	7240	....
Provision for deferred operating income taxes--net	7250	....
Nonoperating income and expense:		
Nonoperating income and expense	7300	7300
Nonoperating taxes:		
Nonoperating taxes	7400	7400
Interest and related items:		
Interest and related items	7500	7500
Extraordinary items	7600	7600
Jurisdictional Differences and non-regulated income items:		
Income effect of jurisdictional ratemaking difference--net	7910	7910
Nonregulated net income	7990	7990

Section 32.7099 Content of accounts is deleted.

Section 32.7100 Other operating income and expenses shall be revised to read as follows:

§ 32.7100 Other operating income and expenses.

(a) This account shall be used to record the results of transactions, events or circumstances during the periods which are incidental or peripheral to the major or central operations of the company. It shall be used to record all items of an operating nature such as incidental work performed for others not provided for elsewhere. Whenever practicable the inflows and outflows associated with a transaction, event or circumstances shall be matched and the result shown as a net gain or loss. This account shall include the following:

(1) Profits realized from custom work (plant construction) performed for others incident to the company's regulated telecommunications operations. This includes profits from the incidental performance of nontariffed construction activities (including associated engineering and design) for others which are similar in nature to those activities which are performed by the company in constructing its own telecommunications plant facilities. The records supporting the entries in this account for income and custom work shall be maintained with sufficient particularity to identify separately the revenue and costs associated with each undertaking.

(2) Return on investment for the use of regulated property plant and equipment to provide nonregulated products and services.

(3) All gains and losses resulting from the exchange of foreign currency. Transaction (realized) gains or losses shall be measured based on the exchange rate in effect on the transaction date. Unrealized gains or losses shall be measured based on the exchange rate in effect at the balance sheet date.

(4) Gains or losses resulting from the disposition of land or artworks.

(5) Charges or credits, as appropriate, to record the results of transactions, events or circumstances which are of an operational nature, but occur irregularly or are peripheral to the major or central operations of the company and not provided for elsewhere.

Section 32.7110 Income from custom work is deleted.

Section 32.7130 Return from nonregulated use of regulated facilities is deleted.

Section 32.7140 Gains and losses from foreign exchange is deleted.

Section 32.7150 Gains and losses from the disposition of land and artworks is deleted.

Section 32.7160 Other operating gains and losses is deleted.

Section 32.7200 Operating taxes is revised to read as follows:

§ 32.7200 Operating taxes.

Class B telephone companies shall use this account for operating taxes of the type and character required of Class A companies in Accounts 7210 through 7250.

Section 32.7210 Operating investment tax credits—net is amended by revising paragraph (b) as follows:

§ 32.7210 Operating investment tax credits--net.

* * * * *

(b) This account shall be credited and Account 4320 shall be charged ratably with the amortization of each year's investment tax credits included in Account 4320 for investment services for ratemaking purposes. Such amortization shall be determined in relation to the period of time used for computing book depreciation on the property with respect to which the tax credits relate.

Section 32.7240 Operating other taxes is amended by revising paragraph (d), (e), and (g) as follows:

§ 32.7240 Operating other taxes.

* * * * *

(d) Interest on tax assessments which are not paid when due shall be included in Account 7500, Interest and related items.

(e) Taxes paid by the company under tax-free covenants on indebtedness shall be charged to Account 7300, Nonoperating income and expense.

(f) * * *

(g) Taxes on rented telecommunications plant which are borne by the lessee shall be credited by the owner to Account 5200, Miscellaneous revenue, and shall be charged by the lessee to the appropriate Plant Specific Operations Expense account.

Section 32.7299 Content of accounts is deleted.

Section 32.7300 Nonoperating income and expense is revised to read as follows:

§ 32.7300 Nonoperating income and expense.

(a) This account shall be used to record the results of transactions, events and circumstances affecting the company during a period and which are not operational in nature. This account shall include such items as nonoperating taxes, dividend income and interest income. Whenever practicable, the inflows and outflows associated with a transaction or event shall be matched and the result shown as a net gain or loss. This account shall include the following:

(1) Dividends on investments in common and preferred stock, which is the property of the company, whether such stock is owned by the company and held in its treasury, or deposited in trust including sinking or other funds, or otherwise controlled.

(2) Dividends received and receivable from affiliated companies accounted for on the equity method shall be included in Account 1410, Other noncurrent assets, as a reduction of the carrying value of the investments.

(3) Interest on securities, including notes and other evidences of indebtedness, which are the property of the company, whether such securities are owned by the company and held in its treasury, or deposited in trust including sinking or other funds, or otherwise controlled. It shall also include interest on cash bank balances, certificates of deposits, open accounts, and other analogous items.

(4) For each month the applicable amount requisite to extinguish, during the interval between the date of acquisition and date of maturity, the difference between the purchase price and the par value of securities owned or held in sinking or other funds, the income from which is includable in this account. Amounts thus credited or charged shall be concurrently included in the accounts in which the securities are carried.

(5) Amounts charged to the telecommunications plant under construction account related to allowance for funds used during construction. (See § 32.2000(c)(2)(x).)

(6) Gains or losses resulting from:

(i) The disposition of land or artworks;

(ii) The disposition of plant with traffic;

(iii) The disposition of nonoperating telecommunications plant not previously used in the provision of telecommunications services.

(7) All other items of income and gains or losses from activities not specifically provided for elsewhere, including representative items such as:

(i) Fees collected in connection with the exchange of coupon bonds for registered bonds;

(ii) Gains or losses realized on the sale of temporary cash investments or marketable equity securities;

(iii) Net unrealized losses on investments in current marketable equity securities;

(iv) Write-downs or write-offs of the book costs of investment in equity securities due to permanent impairment;

(v) Gains or losses of nonoperating nature arising from foreign currency exchange or translation;

(vi) Gains or losses from the extinguishment of debt made to satisfy sinking fund requirements;

(vii) Amortization of goodwill

(viii) Company's share of the earnings or losses of affiliated companies accounted for on the equity method; and

(ix) The net balance of the revenue from and the expenses (including depreciation, amortization and insurance) of property, plant, and equipment, the cost of which is includable in Account 2006, Nonoperating plant.

(8) Costs that are typically given special regulatory scrutiny for ratemaking purposes. Unless specific justification to the contrary is given, such costs are presumed to be excluded from the costs of service in setting rates.

(i) Lobbying includes expenditures for the purpose of influencing public opinion with respect to the election or appointment of public officials, referenda, legislation, or ordinances (either with respect to the possible adoption of new referenda, legislation or ordinances, or repeal or modification of existing referenda, legislation or ordinances) or approval, modification, or revocation of franchises, or for the purpose of influencing the decisions of public officials. This also includes advertising, gifts, honoraria, and political contributions. This does not include such expenditures which are directly related to communications with and appearances before regulatory or other governmental bodies in connection with the reporting utility's existing or proposed operations;

(ii) Contributions for charitable, social or community welfare purposes;

(iii) Membership fees and dues in social, service and recreational or athletic clubs and organizations;

(iv) Penalties and fines paid on account of violations of statutes. This account shall also include penalties and fines paid on account of violations of U.S. antitrust statutes, including judgements and payments in settlement of civil and criminal suits alleging such violations; and

(v) Abandoned construction projects.

(9) Cash discounts on bills for material purchased shall not be included in this account.

Section 32.7310 Dividend income is deleted.

Section 32.7320 Interest income is deleted.

Section 32.7330 Income from sinking and other funds is deleted.

Section 32.7340 Allowance for funds used during construction is deleted.

Section 32.7350 Gains or losses from the disposition of certain property is deleted.

Section 32.7360 Other operating income is deleted.

Section 32.7370 Special charges is deleted.

Section 32.7399 Content of accounts is deleted.

Section 32.7400 Nonoperating taxes is revised to read as follows:

§ 32.7400 Nonoperating taxes.

This account shall include taxes arising from activities which are not a part of the central operations of the entity.

(a) This account shall be charged and Account 4330, Unamortized nonoperating investment tax credits--net, shall be credited with investment tax credits generated from qualified expenditures related to other operations which the company has elected to defer rather than recognize currently in income.

(b) This account shall be credited and Account 4330 shall be charged with the amortization of each year's investment tax credits included in such accounts relating to amortization of previously deferred investment tax credits of other property or regulated property, the amortization of which does not serve to reduce costs of service (but the unamortized balance does reduce rate base) for ratemaking purposes. Such amortization shall be determined with reference to the period of time used for computing book depreciation on the property with respect to which the tax credits relate.

(c) This account shall be charged and Account 4070, Income taxes--accrued, shall be credited for the amount of nonoperating Federal income taxes and state and local income taxes for the current period. This account shall also reflect subsequent adjustments to amounts previously charged.

(d) Taxes shall be accrued each month on an estimated basis and adjustments made as more current data becomes available.

(e) Companies that adopt the flow-through method of accounting for investment tax credits shall reduce the calculated provision in this account by the entire amount of the credit realized during the year. Tax credits, other than investment tax credits, if normalized, shall be recorded consistent with the accounting for investment tax credits.

(f) No entries shall be made to this account to reflect interperiod tax allocation.

(g) Taxes (both Federal and state) shall be accrued each month on an estimated basis and adjustments made as later data becomes available.

(h) This account shall be charged and Account 4080, Other taxes--accrued, shall be credited for all nonoperating taxes, other than Federal, state and local income taxes, and payroll related taxes for the current period. Among the items includable in this account are property, gross receipts, franchise and capital stock taxes. This account shall also reflect subsequent adjustments to amounts previously charged.

- (i) This account shall be charged or credited, as appropriate, with contra entries recorded to the following accounts for nonoperating tax expenses that has been deferred in accordance with § 32.22 of subpart B:

4110 Net Current Deferred Nonoperating Income Taxes

4350 Net Noncurrent Deferred Nonoperating Income Taxes

(j) Subsidiary record categories shall be maintained to distinguish between property and nonproperty related deferrals and so that the company may separately report the amounts contained herein that relate to Federal, state and local income taxes. Such subsidiary record categories shall be reported as required by part 43 of this Commission's Rules and Regulations.

Section 32.7410 Nonoperating investment tax credits—net is deleted.

Section 32.7420 Nonoperating Federal income taxes is deleted.

Section 32.7430 Nonoperating state and local income taxes is deleted.

Section 32.7440 Nonoperating other taxes is deleted.

Section 32.7450 Provision for deferred nonoperating income taxes—net is deleted.

Section 32.7499 Content of accounts is deleted.

Section 32.7500 interest and related items is revised to read as follows:

§ 32.7500 Interest and related items.

(a) This account shall include the current accruals of interest on all classes of funded debt the principal of which is includable in Account 4200, Long term debt and funded debt. It shall also include the interest on funded debt the maturity of which has been extended by specific agreement. This account shall be kept so that the interest on each class of funded debt may be shown separately in the annual reports to this Commission.

(b) These accounts shall not include charges for interest on funded debt issued or assumed by the company and held by or for it, whether pledged as collateral or held in its treasury, in special deposits or in sinking or other funds.

(c) Interest expressly provided for and included in the face amount of securities issued shall be charged at the time of issuance to Account 1280, Prepayments, and cleared to this account as the term expires to which the interest applies.

(d) This account shall also include monthly amortization of balances in Account 4200, Long-term debt and funded debt.

(e) This account shall include the interest portion of each capital lease payment.

(f) This account shall include the monthly amortization of the balances in Account 1410, Other noncurrent assets.

(g) This account shall include all interest deductions not provided for elsewhere, e.g., discount, premium, and expense on notes maturing one year or less from date of issue.

(h) A list of representative items of indebtedness, the interest on which is chargeable to this account, follows:

- (1) Advances from affiliated companies;
- (2) Advances from nonaffiliated companies and other liabilities
- (3) Assessments for public improvements past due;
- (4) Bond coupons, matured and unpaid;
- (5) Claims and judgments;
- (6) Customers' deposits;
- (7) Funded debt mature, with respect to which a definite agreement as to extension has not been made;
- (8) Notes payable on demand or maturing one year or less from date of issue;
- (9) Open accounts;
- (10) Tax assessments, past due; and

(11) Discount, premium, and issuance expense of notes maturing one year or less from date of issue.

Section 32.7510 Interest on funded debt is deleted.

Section 32.7520 Interest expense—capital leases is deleted.

Section 32.7530 Amortization of debt issuance expense is deleted.

Section 32.7540 Other interest deductions is deleted.

Section 32.7599 Content of accounts is deleted.

Section 32.7600 Extraordinary items is revised to read as follows:

§ 32.7600 Extraordinary items.

(a) This account is intended to segregate the effects of events or transactions that are extraordinary. Extraordinary events and transactions are distinguished by both their unusual nature and by the infrequency of their occurrence, taking into account the environment in which the company operates. This account shall also include the related income tax effect of the extraordinary items.

(b) This account shall be credited and/or charged with nontypical, noncustomary and infrequently recurring gains and/or losses which would significantly distort the current year's income computed before such extraordinary items, if reported other than as extraordinary items.

(c) This account shall be charged or credited and Account 4070, Income taxes--accrued, shall be credited or charged for all current income tax effects (Federal, state and local) of extraordinary items.

(d) This account shall also be charged or credited, as appropriate, with a contra amount recorded to Account 4350, Net noncurrent deferred nonoperating income taxes or Account 4110, Net current deferred nonoperating income taxes for the income tax effects (Federal, state and local) of extraordinary items that have been deferred in accordance with § 32.22 of Subpart B.

Section 32.7610 Extraordinary income credits is deleted.

Section 32.7620 Extraordinary income charges is deleted.

Section 32.7630 Current income tax effect of extraordinary items—net is deleted.

Section 32.7640 Provision for deferred income tax effect of extraordinary items—net is deleted.

Section 32.9000 Glossary of terms is amended by revising the definition of *Mid-sized incumbent local exchange carrier* to read as follows:

§ 32.9000 Glossary of terms.

* * * * *

Mid-sized incumbent local exchange carrier is a carrier whose annual revenue from regulated telecommunications operations equals or exceeds the indexed revenue threshold and whose revenue when aggregated with the revenues of any local exchange carrier that it controls, is controlled by, or with which it is under common control is less than \$7 billion (indexed for inflation as measured by the Department of Commerce Gross Domestic Product Chain-type Price Index (GDP-CPI)).

* * * * *

Part 43 of Title 47 of the C.F.R. is amended as follows:

PART 43-REPORTS OF COMMUNICATION COMMON CARRIERS AND CERTAIN AFFILIATES

1. The authority citation for Part 43 continues to read as follows:

Authority: 47 U.S.C. 154; Telecommunications Act of 1996, Pub. L. 104-104, secs. 402(b)(2)(B), (c), 110 Stat. 56 (1996) as amended unless otherwise noted. 47 U.S.C. 211, 219, 220 as amended.

2. Section 43.21 Annual reports of carriers and certain affiliates is amended by revising paragraph (e) to read as follows:

§ 43.21 Annual reports of carriers and certain affiliates.

* * * * *

(e) Each incumbent local exchange carrier, except mid-sized incumbent local exchange carriers, as defined by § 32.9000 with annual operating revenues equal to or above the indexed revenue threshold shall file, no later than April 1 of each year:

(1) * * *

(2) * * *

(3) * * *

In addition to the amendment set forth above, Section 43.21 is amended by revising all references to "Each local exchange carrier" in paragraphs (f) through (j) to read "Each incumbent local exchange carrier".

(k) * * *

Part 51 of Title 47 of the C.F.R. is amended as follows:

PART 51 - INTERCONNECTION

Subpart G Resale

1. The authority citation for Part 51 continues to read as follows:

Authority: 47 U.S.C. §161

2. Section 51.609 Determination of avoided retail costs is amended by revising paragraphs (c)(1),(2) and (3) and (d) to read as follows:

§ 51.609 Determination of avoided retail costs.

* * * * *

(c) * * *

(1) Include, as direct costs, the costs recorded in USOA accounts 6611(product management and sales), 6613 (product advertising) and 6620 (Services) (Secs. 32.6611, 32.6613 and 32.6620 of this chapter);

(2) Include, as indirect costs, a portion of the costs recorded in USOA accounts 6121-6124 (general support expenses), 6720 (corporate operations expenses), and uncollectible telecommunications revenue included in 5300 (uncollectible revenue) (Secs. 32.6121-32.6124, 32.6720 and 32.5300 of this chapter); and

(3) Not include plant-specific expenses and plant non-specific expenses, other than general support expenses (Secs. 32.6112-32.6114, 32.6211-32.6560 of this chapter).

(d) Costs included in accounts 6611, 6613 and 6620 described in paragraph (c) of this section (Secs. 32.6611, 32.6613 and 32.6620 of this chapter) may be included in wholesale rates only to the extent that the incumbent LEC proves to a state commission that specific costs in these accounts will be incurred and are not avoidable with respect to services sold at wholesale, or that specific costs in these accounts are not included in the retail prices of resold services. Costs included in accounts 6112-6114 and 6211-6560 described in paragraph (c) of this section (Secs. 32.6112-32.6114, 32.6211-32.6560 of this chapter) may be treated as avoided retail costs, and excluded from wholesale rates, only to the extent that

a party proves to a state commission that specific costs in these accounts can reasonably be avoided when an incumbent LEC provides a telecommunications service for resale to a requesting carrier.

* * * * *

Part 54, Subpart D of Title 47 of the C. F. R. is amended as follows:

5. Part 54 – UNIVERSAL SERVICE

Subpart D – Universal Service Support for High Cost Areas

1. The authority citation for Part 54 continues to read as follows:

Authority: 47 U.S.C. §§ 1,4(i) 201, 205, 214, and 254

2. Section 54.301 Local switching support is amended by revising the table in paragraph (b), and revising paragraphs (c)(2), (c)(5), and (d)(4) to read as follows:

§ 54.301 Local switching support.

* * * * *

(b) * * *

I

Telecommunications Plant in Service (TPIS)-----	Account 2001
Telecommunications Plant—Other-----	Accounts 2002, 2003, 2005
General Support Assets-----	Account 2110
Central Office Assets-----	Accounts 2210, 2220, 2230
Central Office-switching, Category 3 (local switching)-----	Account 2210, Category 3
Information Origination/termination Assets-----	Account 2310
Cable and Wire Facilities Assets-----	Account 2410
Amortizable Tangible Assets-----	Account 2680
Intangibles-----	Account 2690

II

Rural Telephone Bank (RTB) Stock-----	Included in Account 1410
Materials and Supplies-----	Account 1220.1
Cash Working Capital-----	Defined in 47 CFR 65.820(d)

III

Accumulated Depreciation-----	Account 3100
Accumulated Amortization-----	Included in Accounts 2005, 2680, 2690, 3410
Net Deferred Operating Income Taxes-----	Accounts 4100, 4340
Network Support Expenses-----	Account 6110
General Support Expenses-----	Account 6120
Central Office Switching, Operator Systems, and -----	Accounts 6210, 6220, 6230
Central Office Transmission Expenses	
Information Origination/Termination Expenses-----	Account 6310
Cable and Wire Facilities Expenses-----	Account 6410
Other Property, Plant and Equipment Expenses -----	Account 6510
Network Operations Expenses-----	Account 6530
Access Expense -----	Account 6540
Depreciation and Amortization Expense-----	Account 6560
Marketing Expense-----	Account 6610
Services Expense-----	Account 6620
Corporate Operations Expense-----	Account 6720
Operating Taxes-----	Accounts 7230, 7240
Federal Investment Tax Credits-----	Account 7210
Provision for Deferred Operating Income Taxes-Net-----	Account 7250
Allowance for Funds Used During Construction-----	Included in Account 7300
Charitable Contributions-----	Included in Account 7300
Interest and Related Items-----	Account 7500

IV

Other Non-Current Assets-----	Included in Account 1410
Deferred Maintenance and Retirements-----	Included in Account 1438
Deferred Charges-----	Included in Account 1438
Other Jurisdictional Assets and Liabilities-----	Accounts 1500, 4370
Customers' Deposits-----	Account 4040
Other Long-Term Liabilities-----	Included in Account 4300

(c) * * *

(2) Telecommunications Plant--Other (Accounts 2002, 2003, 2005); Rural Telephone Bank (RTB) Stock (included in Account 1410); Materials and Supplies (Account 1220.1); Cash Working Capital (Sec. 65.820(d) of this chapter); Accumulated Amortization (Included in Accounts 2005, 2680, 2690, 3410); Net Deferred Operating Income Taxes (Accounts 4100, 4340); Network Support Expenses (Account 6110); Other Property, Plant and Equipment Expenses (Account 6510); Network Operations Expenses (Account 6530); Marketing Expense (Account 6610); Services Expense (Account 6620);

Operating Taxes (Accounts 7230, 7240); Federal Investment Tax Credits (Accounts 7210); Provision for Deferred Operating Income Taxes--Net (Account 7250); Interest and Related Items (Account 7500); Allowance for Funds Used During Construction (Included in Account 7300); Charitable Contributions (included in Account 7300); Other Non-current Assets (Included in Account 1410); Other Jurisdictional Assets and Liabilities (Accounts 1500, 4370); Customer Deposits (Account 4040); Other Long-term Liabilities (Included in Account 4300); and Deferred Maintenance and Retirements (Included in Account 1438) shall be allocated according to the following factor:

Account 2210 Category 3 ÷ Account 2001.

(3) * * *

(4) * * *

(5) Corporate Operations Expenses (Account 6720) shall be allocated according to the following factor:

$$\frac{[(\text{Account 2210 Category 3} \div (\text{Account 2210} + \text{Account 2220} + \text{Account 2230}))] \times (\text{Account 6210} + \text{Account 6220} + \text{Account 6230}) + [(\text{Account 6530} + \text{Account 6610} + \text{Account 6620}) \times (\text{Account 2210 Category 3} \div \text{Account 2001})] \div (\text{Account 6210} + \text{Account 6220} + \text{Account 6230} + \text{Account 6310} + \text{Account 6410} + \text{Account 6530} + \text{Account 6610} + \text{Account 6620})}{}$$

(6) * * *

(d) * * *

(4) Federal income tax attributable to COE Category 3 shall be calculated using the following formula; the accounts listed shall be allocated pursuant to paragraph (c) of this section:

$$[\text{Return on Investment attributable to COE Category 3} - \text{Included in Account 7300} - \text{Account 7500} - \text{Account 7210}] \times [\text{Federal Income Tax Rate} \div (1 - \text{Federal Income Tax Rate})].$$

* * * * *

VII. Part 64 of Title 47 of the C.F.R. is amended as follows:

PART 64 - MISCELLANEOUS RULES RELATING TO COMMON CARRIERS

Subpart I Allocation of Costs

1. The authority citation for Part 64 continues to read as follows:

Authority: 47 U.S.C. §161

2. Section 64.901 Allocation of costs is amended by revising paragraph (b)(1) to read as follows:

§ 64.901 Allocation of costs.

* * * * *

b. * * *

(1) Tariffed services provided to a nonregulated activity will be charged to the nonregulated activity at the tariffed rates and credited to the regulated revenue account for that service. Nontariffed services, offered pursuant to a section 252(e) agreement, provided to a nonregulated activity will be charged to the nonregulated activity at the amount set forth in the applicable interconnection agreement approved by a state commission pursuant to section 252(e) and credited to the regulated revenue account for that service.

* * * * *

3. Section 64.903 Cost allocation manuals is amended by revising paragraph (a) to read as follows:

§ 64.903 Cost allocation manuals.

(a) Each incumbent local exchange carrier having annual revenues from regulated telecommunications operations that are equal to or above the indexed revenue threshold (as defined in § 32.9000 of this chapter) except mid-sized incumbent local exchange carriers is required to file a cost allocation manual describing how it separates regulated from nonregulated costs. The manual shall contain the following information regarding the carrier's allocation of costs between regulated and nonregulated activities:

* * * * *

4. Section 64.904 Independent audits is amended by deleting paragraphs (b) and (c) and revising paragraph (a) to read as follows:

§ 64.904 Independent audits.

(a) Each carrier required to file a cost allocation manual shall elect to either (1) have an attest engagement performed by an independent auditor every two years, covering the prior two year period, or (2) have a financial audit performed by an independent auditor every two years, covering the prior two year period. In either case, the initial engagement shall be performed in the calendar year after the carrier is first required to file a cost allocation manual.

(b) The attest engagement shall be an examination engagement and shall provide a written communication that expresses an opinion that the systems, processes, and procedures applied by the

carrier to generate the results reported pursuant to § 43.21(e)(2) of this chapter comply with the Commission's Joint Cost Orders issued in conjunction with CC Docket No. 86-111, the Commission's Accounting Safeguards proceeding in CC Docket No. 96-150, and the Commission's rules and regulations including §§ 32.23 and 32.27 of this chapter, § 64.901, and § 64.903 in force as of the date of the auditor's report. At least 30 days prior to beginning the attestation engagement, the independent auditors shall provide the Commission with the audit program. The attest engagement shall be conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants, except as otherwise directed by the Chief, Common Carrier Bureau.

(c) The biennial financial audit shall provide a positive opinion on whether the applicable data shown in the carrier's annual report required by § 43.21(e)(2) of this chapter present fairly, in all material respects, the information of the Commission's Joint Cost Orders issued in conjunction with CC Docket No. 86-111, the Commission's Accounting Safeguards proceeding in CC Docket No. 96-150, and the Commission's rules and regulations including §§ 32.23 and 32.27 of this chapter, and § 64.901, and § 64.903 in force as of the date of the auditor's report. The audit shall be conducted in accordance with generally accepted auditing standards, except as otherwise directed by the Chief, Common Carrier Bureau. The report of the independent auditor shall be filed at the time that the carrier files the annual reports required by § 43.21(e)(2) of this chapter.

(b) [Removed]

(c) [Removed]

5. Section 64.905 Annual certification is added to read as follows:

§ 64.905 Annual certification.

A mid-sized incumbent local exchange carrier, as defined in § 32.9000, shall file a certification with the Commission stating that it is complying with § 64.901 of the Commission's rules. The certification must be signed, under oath, by an officer of the mid-sized incumbent LEC, and filed with the Commission on an annual basis at the time that the mid-sized incumbent LEC files the annual reports required by § 43.21(e)(2) of this chapter.

Part 65 of Title 47 of the C.F.R. is amended as follows:

PART 65 - INTERSTATE RATE OF RETURN PRESCRIPTION PROCEDURES AND METHODOLOGIES

Subpart C Exchange Carriers

1. The authority citation for Part 65 continues to read as follows:

Authority: 47 U.S.C. §161

2. In Section 65.300(a) remove the words "in excess of 100 million" and add, in their place, the words "equal to or above the indexed revenue threshold as defined in Section 32.9000."

3. In Sections 65.302, 65.303, 65.304, remove the words "of 100 million or more" and add, in their place, the words "equal to or above the indexed revenue threshold as defined in Section 32.9000".
4. Section 65.450 Net Income is amended by revising paragraphs (a),(b)(1), (b)(2)and (d) to read as follows:

§ 65.450 Net Income.

(a) Net income shall consist of all revenues derived from the provision of interstate telecommunications services regulated by this Commission less expenses recognized by the Commission as necessary to the provision of these services. The calculation of expenses entering into the determination of net income shall include the interstate portion of plant specific operations (Accounts 6110-6441), plant nonspecific operations (Accounts 6510-6560), customer operations (Accounts 6610-6620), corporate operations (Accounts 6720-6790), other operating income and expense (Account 7100), and operating taxes (Accounts 7200-7250), except to the extent this Commission specifically provides to the contrary.

(b) * * *

(1) Gains related to property sold to others and leased back under capital leases for use in telecommunications services shall be recorded in Account 4300 (Other long-term liabilities and deferred credits) and credited to Account 6560 (Depreciation and Amortization Expense) over the amortization period established for the capital lease;

(2) Gains or losses related to the disposition of land and other nondepreciable items recorded in Account 7100 (Other operating income and expense) shall be included in net income for ratemaking purposes, but adjusted to reflect the relative amount of time such property was used in regulated operations and included in the rate base; and

(3) * * *

(c) * * *

(d) Except for the allowance for funds used during construction, reasonable charitable deductions and interest related to customer deposits, the amounts recorded as nonoperating income and expenses and taxes (Accounts 7300 and 7400) and interest and related items (Account 7500) and extraordinary items (Account 7600) shall not be included unless this Commission specifically determines that particular items recorded in those accounts shall be included.

5. Section 65.820 Included items is amended by revising paragraphs (a) and (c) to read as follows:

§ 65.820 Included items.

(a) *Telecommunications Plant.* The interstate portion of all assets summarized in Account 2001 (Telecommunications Plant in Service) and Account 2002 (Property Held for Future Use), net of

accumulated depreciation and amortization, and Account 2003 (Telecommunications Plant Under Construction), and, to the extent such inclusions are allowed by this Commission, Account 2005 (Telecommunications Plant Adjustment). Any interest cost for funds used during construction capitalized on assets recorded in these accounts shall be computed in accordance with the procedures in Sec. 32.2000(c)(2)(x) of this chapter.

(b) * * *

(c) *Noncurrent Assets.* The interstate portion of Class B Rural Telephone Bank stock contained in Account 1410 and the interstate portion of assets summarized in Account 1410 (Other Noncurrent Assets) and Account 1438 (Deferred Maintenance, Retirements and Deferred Charges), only to the extent that they have been specifically approved by this Commission for inclusion (Note: The interstate portion of assets summarized in Account 1410 should not include any amounts related to investments, sinking funds or unamortized debt issuance expense). Except as noted above, no amounts from accounts 1406-1500 shall be included.

* * * * *

6. Section 65.830 Deducted items is amended by revising paragraphs (a)(3), (a)(4), and (c) to read as follows:

§ 65.830 Deducted items.

(a) ***

(a)(3) The interstate portion of other long-term liabilities in (Account 4300 Other long-term liabilities and deferred credits) that were derived from the expenses specified in Sec. 65.450(a).

(a)(4) The interstate portion of other deferred credits in (Account 4300 Other long-term liabilities and deferred credits) to the extent they arise from the provision of regulated telecommunications services. This shall include deferred gains related to sale-leaseback arrangements.

(b) * * *

(c) The interstate portion of other long-term liabilities included in (Account 4300 Other long-term liabilities and deferred credits) shall bear the same proportionate relationships as the interstate/intrastate expenses which gave rise to the liability.

Part 69, Subparts A through E of Title 47 of the C.F.R. is amended as follows:

PART 69 ACCESS CHARGES

1. The authority citation for Part 69 continues to read as follows:

Authority: 47 U.S.C. §§154, 201, 202, 203, 205, 218, 220, 254, 403

2. Section 69.2 Definitions is amended by revising paragraphs (j) and (z) to read as follows:

§ 69.2 Definitions.

* * * * *

(j) *Corporate Operations Expenses* are included in General and Administrative Expenses (Account 6720);

* * * * *

(z) *Net Investment* means allowable original cost investment in Accounts 2001 through 2003, 1220 and the investments in nonaffiliated companies included in Account 1410, that has been apportioned to interstate and foreign services pursuant to the Separations Manual from which depreciation, amortization and other reserves attributable to such investment that has been apportioned to interstate and foreign services pursuant to the Separations Manual have been subtracted and to which working capital that is attributable to interstate and foreign services has been added;

* * * * *

3. Section 69.302 Net Investment is amended by revising paragraph (a) to read as follows:

§ 69.302 Net Investment.

(a) Investment in Accounts 2001, 1220 and Class B Rural Telephone Bank Stock booked in Account 1410 shall be apportioned among the interexchange category, billing and collection category and appropriate access elements as provided in Secs. 69.303 through 69.309.

* * * * *

4. Section 69.409 Corporate operations expenses (Accounts 6710 and 6720) is amended by changing the section title to read as follows:

§ 69.409 Corporate operations expenses (included in Account 6720).

* * * *

APPENDIX G – FCC Report 43-04 Table I – Separations and Access Table

FCC Report 43-04

ARMIS ACCESS REPORT

COMPANY: XXXXXXXXXXXXXXXX
 STUDY AREA: XXXXXXXXXXXXXXXX
 PERIOD: From: mm yyyy To mm yyyy
 COSA: XXXX

XXXX Version
 SUBMISSION XXX
 TABLE I
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(i) TABLE I - SEPARATIONS AND ACCESS TABLE

(Dollars in thousands, except where noted, i.e. #, %)

ROW	Category (a)	Subject to Separation (b)	State (c)	Interstate (d)	Common Line (i)	Traffic Sensitive			Special Access (o)	Billing & Collection (q)	IX (r)
						Switch (j)	Transport (l)	Total (n)			

EQUAL ACCESS

30	Total Equal Access Investment				N/A		N/A		N/A	N/A	N/A
40	Total Equal Access Accumulated Depreciation				N/A		N/A		N/A	N/A	N/A
44	Total Equal Access Curr. Def. Oper. Income Tax				N/A		N/A		N/A	N/A	N/A
46	Total Equal Access Non-Curr. Def. Oper. Income Tax				N/A		N/A		N/A	N/A	N/A
83	# Equal Access Minutes of Use				N/A	N/A	N/A	N/A	N/A	N/A	N/A
84	Total Equal Access Expenses				N/A		N/A		N/A	N/A	N/A

TELECOMMUNICATIONS PLANT IN SERVICE**b. General Support Facilities**

1000	GSF Investment										
1001	GSF Inv. Allocation Basis – Class A Cos. – Big 3 Exp.				N/A	N/A	N/A	N/A	N/A	N/A	N/A
1002	GSF Inv. Allocation Basis – Class B Cos. – Inv. Amts.				N/A	N/A	N/A	N/A	N/A	N/A	N/A
1003	GSF Inv. – Part 69 Allocation Basis	N/A	N/A								

Central Office Equipment (COE)

1112	COE Cat. 1 – Switchboard Inv.				N/A		N/A		N/A	N/A	
1129	COE Cat. 1 – Service Observing Boards Inv.				N/A				N/A	N/A	
1154	COE Cat. 1 – Auxiliary Service Boards Inv.				N/A		N/A		N/A	N/A	
1168	COE Cat. 1 – Traffic Service Position System Inv.				N/A				N/A	N/A	
1170	Total COE Cat. 1 Investment				N/A				N/A	N/A	
1201	COE Cat. 2 Tandem Switching Inv. – Dir. Assg. Msg.				N/A	N/A	N/A	N/A	N/A	N/A	N/A
1202	COE Cat. 2 Tandem Switching Inv. – Joint Use				N/A	N/A	N/A	N/A	N/A	N/A	N/A
1203	# Tandem Minutes of Use				N/A	N/A	N/A	N/A	N/A	N/A	N/A
1204	Total COE Cat. 2 Investment				N/A				N/A	N/A	
1212	Total COE Cat. 3 Investment									N/A	
1216	# Dial Equipment Minutes of Use				N/A	N/A	N/A	N/A	N/A	N/A	N/A
1220	COE Cat. 4.11 – WDBD Exch Line Ckt Eqpt – DA PL				N/A	N/A	N/A	N/A	N/A	N/A	N/A
1222	COE Cat. 4.11 – WDBD Exch Line Ckt Eqpt – Joint Use				N/A	N/A	N/A	N/A	N/A	N/A	N/A
1223	# WDBD Minutes of Use				N/A	N/A	N/A	N/A	N/A	N/A	N/A
1224	Total COE Cat. 4.11 – WDBD Exch. Line Ckt. Eqpt. Inv.				N/A	N/A				N/A	
1230	COE Cat. 4.12 Basic Exch. Trunk Ckt. – Dir. Assg. – PL				N/A	N/A	N/A	N/A	N/A	N/A	N/A
1231	COE Cat. 4.12 Basic Exch. Trunk Ckt. – Dir. Assg. – Msg				N/A	N/A	N/A	N/A	N/A	N/A	N/A
1232	COE Cat. 4.12 Basic Exch. Trunk Ckt. – Joint Use				N/A	N/A	N/A	N/A	N/A	N/A	N/A
1233	# Exchange Trunk Minutes of Use				N/A	N/A	N/A	N/A	N/A	N/A	N/A

1234	Total COE Cat. 4.12 Basic Exch. Trunk Ckt. Eqpt. Inv.				N/A	N/A	N/A	N/A	N/A	N/A	N/A
1240	COE Cat. 4.12 Special Exch. Trk. Ckt. – Dir. Assg. – PL				N/A	N/A	N/A	N/A	N/A	N/A	N/A
1250	COE Cat. 4.12 WDBD Exch. Trk. Ckt. – Dir. Assg. – PL				N/A	N/A	N/A	N/A	N/A	N/A	N/A
1252	COE Cat. 4.12 WDBD Exch. Trunk Ckt. – Joint Use				N/A	N/A	N/A	N/A	N/A	N/A	N/A
1254	Total COE Cat. 4.12 WDBD Exch. Trunk Ckt. Eqpt.				N/A	N/A	N/A	N/A	N/A	N/A	N/A
1260	Total COE Cat. 4.12 Exch. Trunk Ckt. Eqpt. Inv.				N/A					N/A	
1274	COE Cat. 4.13 Basic Exch. Ckt. Eqpt. – Dir. Assg. PL				N/A	N/A	N/A	N/A	N/A	N/A	N/A

FCC Report 43-04

ARMIS ACCESS REPORT

COMPANY: XXXXXXXXXXXXXXXX

STUDY AREA: XXXXXXXXXXXXXXXX

PERIOD: From: mm yyyy To mm yyyy

COSA: XXXX

XXXX Version

SUBMISSION XXX

TABLE I

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(i) TABLE I - SEPARATIONS AND ACCESS TABLE

(Dollars in thousands, except where noted, i.e. #, %)

ROW	Category (a)	Subject to Separation (b)	State (c)	Interstate (d)	Common Line (i)	Traffic Sensitive			Special Access (o)	Billing & Collection (q)	IX (r)
						Switch (j)	Transport (l)	Total (n)			
1275	COE Cat. 4.13 Basic Exch. Ckt. Eqpt. – Joint Use				N/A	N/A	N/A	N/A	N/A	N/A	N/A
1276	% Loop Allocation Factor				N/A	N/A	N/A	N/A	N/A	N/A	N/A
1277	Total COE Cat. 4.13 Basic Exch. Ckt. Eqpt.				N/A	N/A	N/A	N/A	N/A	N/A	N/A
1280	Tot. COE Cat. 4.13 Spl. Exch. Ckt. Eqpt.– Dir. Assg. PL				N/A	N/A	N/A	N/A	N/A	N/A	N/A
1290	Total COE Cat. 4.13 Exch. Ckt. Eqpt. Inv.					N/A	N/A	N/A		N/A	N/A
1300	Total COE Cat. 4.1 – Exch. Line Ckt. Eqpt.									N/A	
1310	Total COE Cat. 4.21 IX Ckt. Eqpt. Furnished to Others		N/A		N/A	N/A	N/A	N/A	N/A	N/A	
1320	COE Cat. 4.22 WDBD IX Ckt. Eqpt. – Dir. Assg. PL				N/A	N/A	N/A	N/A	N/A	N/A	N/A
1322	COE Cat. 4.22 WDBD IX Ckt. Eqpt. – Joint Use				N/A	N/A	N/A	N/A	N/A	N/A	N/A
1323	# Conversation Minute Kilometers				N/A	N/A	N/A	N/A	N/A	N/A	N/A
1324	Total COE Cat. 4.22 WDBD IX Ckt. Eqpt. Inv.				N/A	N/A	N/A			N/A	
1336	COE Cat. 4.23 Basic IX Ckt. Eqpt. – Dir. Assg. PL				N/A	N/A	N/A	N/A	N/A	N/A	N/A
1338	COE Cat. 4.23 Basic IX Ckt. Eqpt. – Joint Use				N/A	N/A	N/A	N/A	N/A	N/A	N/A
1339	# Conversation Minutes				N/A	N/A	N/A	N/A	N/A	N/A	N/A
1342	Total COE Cat. 4.23 Basic IX Ckt. Eqpt. Inv.				N/A	N/A	N/A	N/A	N/A	N/A	N/A
1350	COE Cat. 4.23 Spl. IX Ckt. Eqpt. - Dir. Assg. PL				N/A	N/A	N/A	N/A	N/A	N/A	N/A
1370	Total COE Cat. 4.23 IX Ckt. Eqpt. Inv.				N/A					N/A	
1380	Total COE Cat. 4.2 IX Ckt. Eqpt. Inv.				N/A					N/A	
1392	COE Cat. 4.3 Host/Remote Ckt. Eqpt. – Joint Use				N/A	N/A	N/A	N/A	N/A	N/A	N/A
1393	# Minutes of Use Kilometers				N/A	N/A	N/A	N/A	N/A	N/A	N/A
1394	Total COE Cat. 4.3 COE – Host/Remote Ckt. Eqpt. Inv.									N/A	
1400	Total COE Cat. 4 – COE Ckt. Eqpt. Inv.									N/A	
1410	Total COE Investment									N/A	

Information Origination/Termination (IOT) Equipment

1420	IOT Cat. 1 – Other IOT Inv.				N/A	N/A	N/A	N/A	N/A	N/A	N/A
1425	IOT Cat. 1 – Other IOT - Part 69 Allocation	N/A	N/A			N/A	N/A	N/A		N/A	N/A
1426	# Equivalent Lines	N/A	N/A			N/A	N/A	N/A		N/A	N/A
1428	Total IOT Cat. 1 Investment					N/A	N/A	N/A		N/A	N/A
1430	IOT Cat. 2 New Cust. Premises Eqpt. - Dir. Assg. State			N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
1440	Total Information Origination/Termination Investment					N/A	N/A	N/A		N/A	N/A

Cable and Wire Facilities (C&WF)

1454	C&WF Cat. 1 - Exch. Line – Dir. Assg. PL				N/A	N/A	N/A	N/A	N/A	N/A	N/A
1455	C&WF Cat. 1 - Exch. Line – Joint Use				N/A	N/A	N/A	N/A	N/A	N/A	N/A
1460	Total C&WF Cat. 1 – Exch. Line Inv.					N/A	N/A	N/A		N/A	N/A
1470	C&WF Cat. 2 – Exch. Trunk – Dir. Assg. PL				N/A	N/A	N/A	N/A	N/A	N/A	N/A
1471	C&WF Cat. 2 – Exch. Trunk – Dir. Assg. Msg.				N/A	N/A	N/A	N/A	N/A	N/A	N/A
1472	C&WF Cat. 2 – Exch. Trunk – Joint Use Msg.				N/A	N/A	N/A	N/A	N/A	N/A	N/A

1474	Total C&WF Cat. 2 – Exch. Trunk Inv.				N/A	N/A	N/A	N/A	N/A	N/A	N/A
1480	C&WF Cat. 2 - WDBD – Dir. Assg. PL				N/A	N/A	N/A	N/A	N/A	N/A	N/A
1481	C&WF Cat. 2 - WDBD – Dir. Assg. Msg.				N/A	N/A	N/A	N/A	N/A	N/A	N/A
1484	Total C&WF Cat. 2 – Wideband Inv.				N/A	N/A	N/A	N/A	N/A	N/A	N/A
1485	Total C&WF Cat. 2 Investment				N/A					N/A	

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(ii) TABLE I - SEPARATIONS AND ACCESS TABLE

(Dollars in thousands, except where noted, i.e. #, %)

ROW	Category (a)	Subject to Separation (b)	State (c)	Interstate (d)	Common Line (i)	Traffic Sensitive			Special Access (o)	Billing & Collection (q)	IX (r)
						Switch (j)	Transport (l)	Total (n)			
1496	C&WF Cat. 3 Interexchange – Dir. Assg. PL				N/A	N/A	N/A	N/A	N/A	N/A	N/A
1497	C&WF Cat. 3 Interexchange – Dir. Assg. Msg.				N/A	N/A	N/A	N/A	N/A	N/A	N/A
1498	C&WF Cat. 3 Interexchange – Joint Use Msg.				N/A	N/A	N/A	N/A	N/A	N/A	N/A
1510	Total C&WF Cat. 3 – Interexchange Inv.				N/A					N/A	
1522	C&WF Cat. 4 Host/Remote – Joint Use Msg.				N/A	N/A	N/A	N/A	N/A	N/A	N/A
1524	Total C&WF Cat. 4 – Host/Remote Inv.					N/A				N/A	
1530	Total Cable & Wire Facilities Investment									N/A	
1540	Total Telephone Plant Investment - All Categories										

Tangible and Intangible Assets

2001	Tangible Assets – Capital Leases – GSF										
2003	Tangible Assets – Capital Leases – CO Sw.									N/A	
2013	Tangible Assets – Capital Leases – For Pt. 69 Alloc.	N/A	N/A								
2020	Total Tangible Assets – Capital Leases										
2070	Tangible Assets – Leasehold Improvements – GSF				N/A	N/A	N/A	N/A	N/A	N/A	N/A
2130	Tangible Assets Leasehold Imp. – For Pt. 69 Alloc.	N/A	N/A								
2131	Combined Investment per Part 69.309	N/A	N/A								
2140	Total Tangible Assets – Leasehold Improvements										
2150	Total Tangible Assets										
2160	Intangible Assets										
2161	Tel. Plant In Service less Intangible Assets				N/A	N/A	N/A	N/A	N/A	N/A	N/A

OTHER TELECOMMUNICATIONS PLANT

2190	Property Held for Future Telecommunications Use										
2191	Telecommunications Plant under Construction										
2193	Telecommunications Plant Adjustment										
2194	Telecommunications Plant in Service										
2203	Total Other Plant Investment										
2210	Rural Telephone Bank Stock										
2224	Materials and Supplies										
2230	Cash Working Capital	N/A	N/A								
2240	Total Other Investment										
2250	FCC Investment Adjustment	N/A	N/A								
2260	Total Telecommunications Plant Investment										

RESERVES AND DEFERRALS

3000	Res./Def. – Other Jurisdictional Assets			N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
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Accumulated Depreciation

3010	Res./Def. – Accum. Deprec. – GSF										
3020	Res./Def. – Accum. Deprec. – CO Sw. Eqpt.									N/A	

3021	Res./Def. – CO Switching Inv. for Allocation									N/A	
3030	Res./Def. – Accum. Deprec. – Opr.Svc. Eqpt.									N/A	
3040	Res./Def. – Accum. Deprec. – CO Ckt. Eqpt.									N/A	
3050	Res./Def. – Accum. Deprec. – IOT					N/A	N/A	N/A		N/A	N/A

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(iii) TABLE I - SEPARATIONS AND ACCESS TABLE

(Dollars in thousands, except where noted, i.e. #, %)

ROW	Category (a)	Subject to Separatio n (b)	State (c)	Interstat e (d)	Common Line (i)	Traffic Sensitive			Special Access (o)	Billing & Collection (q)	IX (r)
						Switch (j)	Transport (l)	Total (n)			
3060	Res./Def. – Accum. Deprec. – C&WF									N/A	
3070	Res./Def. – Accum. Deprec. – Prop. Held for Future Use										
3080	Total Accumulated Depreciation										

Accumulated Amortization

3090	Res./Def. – Accum. Amort. Capital Leases - GSF										
3100	Res./Def. – Accum. Amort. Capital Leases - CO Sw. Eqpt.									N/A	
3150	Total Accum. Amort. – Capital Leases										
3220	Total Accum. Amort. – Leasehold Improvements										
3230	Total Accumulated Amortization – Tangible Assets										
3240	Res./Def. – Accum. Amort. – Intangible Assets										
3250	Res./Def. – Other Accum. Amort.										
3260	Total Accumulated Amortization – Intangible Assets										
3270	Total Accumulated Amortization										

Net Current Deferred Operating Income Taxes

3280	Res./Def. – Current Def. Oper. Inc. Tax – GSF										
3290	Res./Def. – Current Def. Oper. Inc. Tax – CO Sw. Eqpt.									N/A	
3300	Res./Def. – Current Def. Oper. Inc. Tax – Opr. Svc. Eqpt.									N/A	
3310	Res./Def. – Current Def. Oper. Inc. Tax – CO Ckt. Eqpt.									N/A	
3320	Res./Def. – Current Def. Oper. Inc. Tax – IOT					N/A	N/A	N/A		N/A	N/A
3330	Res./Def. – Current Def. Oper. Inc. Tax – C&WF									N/A	
3332	Res./Def. – Other Current Def. Oper. Inc. Tax										
3340	Total Net Current Deferred Operating Income Tax										

Net Non-current Deferred Operating Income Taxes

3350	Res./Def. – Noncurr. Def. Oper. Inc. Tax – GSF										
3360	Res./Def. – Noncurr. Def. Oper. Inc. Tax – CO Sw. Eqpt.									N/A	
3370	Res./Def. – Noncurr. Def. Oper. Inc. Tax – Opr. Svc. Eqpt.									N/A	
3380	Res./Def. – Noncurr. Def. Oper. Inc. Tax – CO Ckt Eqpt.									N/A	
3390	Res./Def. – Noncurr. Def. Oper. Inc. Tax – IOT					N/A	N/A	N/A		N/A	N/A
3400	Res./Def. – Noncurr. Def. Oper. Inc. Tax – C&WF									N/A	
3402	Res./Def. – Other Noncurrent Def. Oper. Income Tax										
3410	Total Net Noncurrent Deferred Operating Income Tax										

Other Jurisdictional Liabilities, Deferred Credits and Reserve Adjustment

3420	Res./Def. – Other Jurisdictional Liabilities			N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
3421	Res./Def. – FCC Reserve Adjustment	N/A	N/A								
3422	Res./Def. – Customer Deposits										
3423	Res./Def. – Other Deferred Credits										

3430	Total Reserves and Deferrals										
------	------------------------------	--	--	--	--	--	--	--	--	--	--

OPERATING REVENUES AND CERTAIN INCOME ACCOUNTS**Operating Revenues**

4000	Basic Local Service Rev. – PL				N/A	N/A	N/A	N/A	N/A	N/A	N/A
4001	Basic Local Service Rev. – Foreign Exchange				N/A	N/A	N/A	N/A	N/A	N/A	N/A
4002	Basic Local Service Rev. – WDBD Message				N/A	N/A	N/A	N/A	N/A	N/A	N/A

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(iv) TABLE I - SEPARATIONS AND ACCESS TABLE

(Dollars in thousands, except where noted, i.e. #, %)

ROW	Category (a)	Subject to Separation (b)	State (c)	Interstate (d)	Common Line (i)	Traffic Sensitive			Special Access (o)	Billing & Collection (q)	IX (r)
						Switch (j)	Transport (l)	Total (n)			
4004	All Other Basic Local Service Rev.				N/A	N/A	N/A	N/A	N/A	N/A	N/A
4005	Total Basic Local Service Revenue				N/A	N/A	N/A	N/A		N/A	N/A
4010	Network Access Service Rev. – End User		N/A		N/A	N/A	N/A	N/A	N/A	N/A	N/A
4011	Network Access Service Rev. – Switched Access		N/A		N/A	N/A	N/A	N/A	N/A	N/A	N/A
4012	Network Access Service Rev. – Special Access		N/A		N/A	N/A	N/A	N/A	N/A	N/A	N/A
4013	Network Access Service Rev. – State Access			N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
4014	Total Network Access Service Revenue									N/A	
4020	Long Distance Message Rev. – Wideband				N/A	N/A	N/A	N/A	N/A	N/A	N/A
4022	Long Distance Message Rev. – Private Line				N/A	N/A	N/A	N/A	N/A	N/A	N/A
4023	Long Distance Message Rev. – Other				N/A	N/A	N/A	N/A	N/A	N/A	N/A
4024	Total Long Distance Message Service Revenue									N/A	
4030	Misc. Rev. – Directory				N/A	N/A	N/A	N/A	N/A	N/A	N/A
4031	Misc. Rev. – Billing and Collections				N/A	N/A	N/A	N/A	N/A	N/A	N/A
4032	Misc. Rev. – All Other				N/A	N/A	N/A	N/A	N/A	N/A	N/A
4033	Total Miscellaneous Revenue										
4040	Uncollectible Revenue										
4050	Total Revenue										

Certain Income Accounts

4060	Other Operating Income – Foreign Exchange Service		N/A		N/A	N/A	N/A	N/A	N/A	N/A	N/A
4061	Other Operating Income – Directly Assigned				N/A	N/A	N/A	N/A	N/A	N/A	N/A
4062	Other Operating Income – Joint Use				N/A	N/A	N/A	N/A	N/A	N/A	N/A
4064	Total Other Operating Income – Part 69	N/A	N/A								
4066	Total Other Operating Income										
4070	Allowance for Funds used during Construction										
4072	Social and Community Welfare Contributions										
4076	Total Non-operating Income & Expenses										
4080	Interest Paid – Capital Leases										
4090	Extraordinary Items										
4100	Income Effect Jurisdictional Rate-making Difference			N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
4120	Total Operating Revenues (plus) Jurisdictional Diff.										

OPERATING EXPENSES**Plant Specific Operations Expense**

5000	Network Support Expense										
5010	General Support Expense										
5013	Total Network & General Support Expense										
5026	Total COE Expense									N/A	
5042	Other IOT Expense					N/A	N/A	N/A		N/A	N/A

5050	CPE Expense – Dir. Assg.			N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
5060	Total IOT Expense					N/A	N/A	N/A		N/A	N/A
5076	Total C&WF Expense									N/A	
5080	Total Plant Specific Operations Expense										

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(v) TABLE I – SEPARATIONS AND ACCESS TABLE

(Dollars in thousands, except where noted, i.e. #, %)

ROW	Category (a)	Subject to Separatio n (b)	State (c)	Interstat e (d)	Common Line (i)	Traffic Sensitive			Special Access (o)	Billing & Collection (q)	IX (r)
						Switch (j)	Transport (l)	Total (n)			
Plant Nonspecific Operations Expense											
6000	Other Property Plant and Equipment Expense									N/A	
6010	Network Operations Expense									N/A	
6012	Access Expense – Directly Assigned				N/A	N/A	N/A	N/A	N/A	N/A	
6020	Depreciation Exp. – GSF										
6030	Depreciation Exp. – CO Sw. Eqpt.									N/A	
6040	Depreciation Exp. – Opr. Svc. Eqpt.									N/A	
6050	Depreciation Exp. – CO Ckt. Eqpt.									N/A	
6060	Depreciation Exp. – IOT					N/A	N/A	N/A		N/A	N/A
6070	Depreciation Exp. – C&WF									N/A	
6080	Depreciation Exp. – Plant Held for Future Use										
6090	Total Depreciation Expense										
6100	Amortization Exp. - Capital Leases – GSF										
6110	Amortization Exp. – Capital Leases – CO Sw. Eqpt.									N/A	
6160	Total Amortization Exp. – Capital Leases										
6230	Total Amortization Exp. - Leasehold Improv. – GSF										
6240	Total Amortization Expense - Tangible Assets										
6250	Amortization Expense – Intangible Assets										
6252	Other Depreciation/Amortization Expense										
6254	Total Other Depreciation/Amortization Expense										
6260	Total Depreciation/Amortization Expense										
6270	Total Plant Nonspecific Operations Expense										
Customer Operations Expense											
6998	Marketing Exp. – Dir. Assg.				N/A	N/A	N/A	N/A	N/A	N/A	N/A
6999	Marketing Exp. – Allocated				N/A	N/A	N/A	N/A	N/A	N/A	N/A
7000	Total Marketing Expense									N/A	
7001	Current Billing Analysis				N/A	N/A	N/A	N/A	N/A	N/A	N/A
7002	Combined Investment for Part 69	N/A	N/A							N/A	
7052	# Weighted Standard Work Seconds	N/A	N/A		N/A		N/A		N/A	N/A	
7060	Total Telephone Operator Service Expense				N/A		N/A		N/A	N/A	
7070	Directory Exp. – Classified – Dir. Assg.			N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
7073	Directory Exp. – Alphabetical				N/A	N/A	N/A	N/A	N/A	N/A	N/A
7074	# Subscriber Line Minutes-of-Use				N/A	N/A	N/A	N/A	N/A	N/A	N/A
7075	Directory Expense – Foreign – Dir. Assg.				N/A	N/A	N/A	N/A	N/A	N/A	N/A
7076	Total Directory Expense				N/A	N/A	N/A		N/A	N/A	N/A
7220	Other Cust. Svc. Exp. – Cat. 1 – Local Bus. Ofc. Exp.										
7290	Other Cust. Svc. Exp. – Cat. 2 – Rev. Acctg. Exp.										N/A

7300	Other Cust. Svc. Exp. – Cat. 3 – Customer Svc. Exp.										
7310	Total Other Customer Services Expense										
7320	Total Customer Operations Expense										

Corporate Operations Expense & FCC Expense Adjustment

7330	Corp. Oper. Exp. – EAS – Dir. Assg. Exchange			N/A						N/A	N/A
7331	Corporate Operations Exp. – All Other										

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(vi) TABLE I – SEPARATIONS AND ACCESS TABLE

(Dollars in thousands, except where noted, i.e. #, %)

ROW	Category (a)	Subject to Separation (b)	State (c)	Interstat e (d)	Common Line (i)	Traffic Sensitive			Special Access (o)	Billing & Collecti on (q)	IX (r)
						Switch (j)	Transport (l)	Total (n)			
7334	Total Corporate Operations Expense										
7350	FCC Expense Adjustment	N/A	N/A								
7351	Total Operating Expense										

Operating Taxes

8000	Operating Taxes – State and Local Income										
8001	Approximate Net Taxable Income – SIT										
8002	Oper. Taxes – Other State and Local – Dir. Assg.				N/A	N/A	N/A	N/A	N/A	N/A	N/A
8003	Oper. Taxes – Other State and Local – Joint Use				N/A	N/A	N/A	N/A	N/A	N/A	N/A
8005	Oper. Taxes – Other State and Local – Pt. 69	N/A	N/A								
8007	Total State & Local Taxes										
8010	Operating Taxes – Fixed Charges										
8011	Operating Taxes – Net Investment				N/A	N/A	N/A	N/A	N/A	N/A	N/A
8013	Operating Taxes – IRS Income Adjustment										
8014	Operating Taxes – FCC Taxable Income Adjustment	N/A	N/A								
8015	Operating Taxes – Amortization of Invest. Tax Credit										
8018	Operating Taxes – FCC Invest. Tax Credit	N/A	N/A								
8020	Operating Taxes – Federal Income Tax										
8021	Approximate Net Taxable Income – FIT										
8030	Total Operating Taxes										

RETURN DATA

8040	Return Data – Average Net Investment										
8041	Return Data – Net Return	N/A	N/A							N/A	N/A
8042	% Return Data – Rate of Return	N/A	N/A							N/A	N/A

Note: The symbol “#” preceding the applicable row description would indicate items that are not dollars or percentages (e.g., minutes of use, conversation minutes, minutes of use kilometers, etc.) The symbol “%” preceding the applicable row description indicates items to be entered as a percent (e.g. rate of return).

APPENDIX H – Regulatory Flexibility Analyses

A. Final Regulatory Flexibility Analysis

240. As required by the Regulatory Flexibility Act (RFA),⁴¹³ an Initial Regulatory Flexibility Analysis (IRFA) was incorporated in the Notice of Proposed Rulemaking and the *June 8 Public Notice* seeking further comment in this proceeding.⁴¹⁴ The Commission has prepared this Final Regulatory Flexibility Analysis (FRFA) of any possible significant economic impact on small entities by the adoption of rules in the attached Report and Order.

241. *Need for, and Objectives of, this Report and Order.* Under our rules, there are two classes of incumbent LECs for accounting purposes: Class A and Class B.⁴¹⁵ Carriers with annual revenues from regulated telecommunications operations that are equal to or above the indexed revenue threshold, currently \$117 million, are classified as Class A; those falling below that threshold are considered Class B.⁴¹⁶ Class A carriers (operating companies of SBC, Qwest, Verizon, and BellSouth) have been required to maintain 296 Class A accounts,⁴¹⁷ which provide more detailed records of investment, expense, and revenue than the 113 Class B accounts that Class B carriers are required to maintain.⁴¹⁸ The more generalized level of accounting required under Class B was established to accommodate smaller carriers. In the attached Report and Order, the Commission streamlines the Class A and Class B accounts⁴¹⁹ and ARMIS reporting requirements for incumbent LECs,⁴²⁰ and further reduces the accounting and reporting requirements for mid-sized incumbent LECs.⁴²¹ In addition, this Report and Order eliminates the certain inventory requirements; allows carriers to adopt SFAS-116 for federal accounting purposes; eliminates the requirement for a fair market value comparison for asset transfers under \$500,000; eliminates the “treated traditionally” requirement from “incidental activities”; modifies the expense limit rules to include central office tools and test equipment in the expense limit; and amends section 32.11 of the Commission’s rules to expressly limit the rule to incumbent LECs.⁴²² Finally, the Commission modifies the ARMIS reporting

⁴¹³ See 5 U.S.C. § 603. The RFA, see 5 U.S.C. § 601 *et seq.*, has been amended by the Contract with America Advancement Act of 1996, Pub. L. No. 104-121, 110 Stat. 847 (1996) (CWAAA). Title II of the CWAAA is the Small Business Regulatory Enforcement Fairness Act of 1996 (SBREFA).

⁴¹⁴ 2000 Biennial Regulatory Review – Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers: Phase 2 and Phase 3, CC Docket No. 00-199, *Notice of Proposed Rulemaking*, FCC 00-364 (rel. Oct. 18, 2000) (*Notice*). The Commission sought further comment on streamlining Class A and Class B accounts. See “Commission Seeks Further Comment in Phase 2 of the Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers,” *Public Notice*, DA 01-1403 (rel. June 8, 2001) (*June 8 Public Notice*).

⁴¹⁵ 47 C.F.R. § 32.11.

⁴¹⁶ See “Annual Adjustment of Revenue Threshold,” *Public Notice*, DA 01-903 (rel. Apr. 11, 2001) (adjusting annual indexed revenue threshold to \$117 million).

⁴¹⁷ Other Class A carriers include ALLTEL, Citizens Communications, Cincinnati Bell, C-TEC, Sprint, Roseville, and CenturyTel. These carriers are “mid-sized” LECs. We reduced accounting requirements for mid-sized LECs and allow them to maintain their accounts on a Class B level. See *ARMIS Reductions Report and Order*, 14 FCC Rcd at 11449, ¶ 11.

⁴¹⁸ The difference in the number of accounts is that many of the Class A accounts are aggregated into summary accounts under Class B.

⁴¹⁹ See Report and Order at ¶¶ 27-43, 77.

⁴²⁰ See *id.* at ¶¶ 135-183.

⁴²¹ See *id.* at ¶¶ 190-198.

⁴²² See *id.* at ¶¶ 80-113.

requirements to eliminate out-of-date requirements and to add reporting for new technologies. These rule changes generally reduce the accounting and reporting requirements for all incumbent LECs.⁴²³

242. *Summary of Significant Issues Raised by Commenters.* No comments were received in response to the IRFA in the Notice of Proposed Rulemaking or the IRFA in the *June 8 Public Notice*. Several commenters, in the initial comments in this proceeding, suggested completely eliminating ARMIS reporting for mid-sized LECs.⁴²⁴

243. *Description and Estimate of the Number of Small Entities to which the Rules Will Apply.* The RFA directs agencies to provide a description of, and, where feasible, an estimate of the number of small entities that may be affected by the proposed rules, if adopted.⁴²⁵ To estimate the number of small entities that may be affected by the proposed rules, we first consider the statutory definition of "small entity" under the RFA. The RFA generally defines "small entity" as having the same meaning as the term "small business," "small organization," and "small governmental jurisdiction."⁴²⁶ In addition, the term "small business" has the same meaning as the term "small business concern" under the Small Business Act, unless the Commission has developed one or more definitions that are appropriate to its activities.⁴²⁷ Under the Small Business Act, a "small business concern" is one that: (1) is independently owned and operated; (2) is not dominant in its field of operation; and (3) meets any additional criteria established by the Small Business Administration (SBA).⁴²⁸

244. The Commission has included small incumbent LECs⁴²⁹ in this present RFA analysis. A "small business" under the RFA is one that, *inter alia*, meets the pertinent small business size standard (*e.g.*, a telephone communications business having 1,500 or fewer employees), and "is not dominant in its field of operation."⁴³⁰ The SBA's Office of Advocacy contends that, for RFA purposes, small incumbent LECs are not dominant in their field of operation because any such dominance is not "national" in scope.⁴³¹ We have therefore included small incumbent LECs in this RFA analysis, although we emphasize that this RFA action has no effect on Commission analyses and determinations in other, non-RFA contexts.

⁴²³ No small entities are affected by the additional ARMIS reporting requirements. *See id.* at ¶ 175 describing the new rows to the ARMIS 43-07. The ARMIS 43-07 is filed by mandatory price cap carriers only (*i.e.*, SBC, Verizon, Qwest, and BellSouth). There are also several new subaccounts adopted in the Report and Order for Class A carriers, although the total number of accounts is substantially reduced. These new subaccounts are Class A subaccounts, and will be maintained by the Bell Operating Companies only. *See* Report and Order at ¶¶ 59-61, 75.

⁴²⁴ *See* Report and Order at ¶ 193.

⁴²⁵ 5 U.S.C. § 603(b)(3).

⁴²⁶ 5 U.S.C. § 601(6).

⁴²⁷ 5 U.S.C. § 601(3) (incorporating by reference the definition of "small business concern" in 15 U.S.C. § 632). Pursuant to 5 U.S.C. § 601(3), the statutory definition of a small business applies "unless an agency after consultation with the Office of Advocacy of the Small Business Administration and after opportunity for public comment, establishes one or more definitions of such term which are appropriate to the activities of the agency and publishes such definition in the Federal Register."

⁴²⁸ 15 U.S.C. § 632.

⁴²⁹ *See* 47 U.S.C. § 251(h) (defining "incumbent local exchange carrier").

⁴³⁰ 5 U.S.C. § 601(3).

⁴³¹ Letter from Jere W. Glover, Chief Counsel for Advocacy, SBA, to William E. Kennard, Chairman, FCC (May 27, 1999). The Small Business Act contains a definition of "small business concern," which the RFA incorporates into its own definition of "small business." *See* 15 U.S.C. § 632(a) (Small Business Act); 5 U.S.C. § 601(3) (RFA). SBA regulations interpret "small business concern" to include the concept of dominance on a national basis. 13 C.F.R. § 121.102(b).

245. Wireline carriers (incumbent LECs). According to Trends in Telephone Service, there were 1,335 incumbent local exchange carriers filing the FCC Form 499-A on April 1, 2000.⁴³² Of these carriers, 1,037 had, in combination with affiliates, 1,500 or fewer employees and 298 had, in combination with affiliates, more than 1,500 employees.⁴³³ Some of these carriers may not be independently owned or operated, but we are unable at this time to estimate with greater precision the number of wireline carriers that would qualify as small business concerns under SBA's definition. Consequently, we estimate that there are fewer than 1,037 wireline small entities that may be affected by the rules adopted in the Report and Order.

246. The changes to the accounting and reporting requirements in this Report and Order, are for the most part, reductions in the Commission's accounting and reporting requirements. These rule changes could affect all incumbent local exchange carriers. Some of these companies may be considered "small entities" under the SBA definition. Therefore, it is possible that some of the 1,037 small entity telephone companies may be affected by the rule changes. The increased ARMIS reporting requirements will only affect the Bell Operating Companies, none of which are small entities. There are several new subaccounts adopted in this Report and Order for Class A carriers, although the total number of accounts is substantially reduced. These new subaccounts are Class A subaccounts, and will be maintained by the Bell Operating Companies only.

247. *Description of Projected Reporting, Recordkeeping, and Other Compliance Requirements.* This Report and Order generally reduces accounting and reporting requirements for all incumbent local exchange companies. These rule changes will result in fewer accounting and reporting requirements for all incumbent local exchange carriers, including small entities. This Report and Order has several new accounting and ARMIS reporting requirements that apply to the Bell Operating Companies only. For instance, the Report and Order adds several Class A subaccounts; however, these will be maintained by the largest incumbent LECs (*i.e.*, Bell Operating Companies) only. Small entities will not have any additional accounting or ARMIS reporting requirements.⁴³⁴

248. *Steps Taken to Minimize Significant Economic Impact on Small Entities, and Significant Alternatives Considered.* The RFA requires an agency to describe any significant alternatives that it has considered in reaching its proposed approach, which may include the following four alternatives (among others): (1) the establishment of differing compliance or reporting requirements or timetables that take into account the resources available to small entities; (2) the clarification, consolidation, or simplification of compliance or reporting requirements under the rule for small entities; (3) the use of performance, rather than design, standards; and (4) an exemption from coverage of the rule, or any part thereof, for small entities.⁴³⁵

249. This Report and Order significantly reduces accounting and reporting requirements for the smaller (*i.e.*, "mid-sized") incumbent LECs, which may include small entities. Specifically, the Report and Order eliminates the cost allocation manual filing requirements and biennial attestation requirement for mid-sized LECs.⁴³⁶ In addition, the Report and Order eliminates the requirement that mid-sized LECs file ARMIS 43-02, 43-03, and 43-04 Reports.⁴³⁷ Generally, the rule changes adopted herein result in fewer accounting and reporting requirements for all incumbent LECs (except for several new accounting and ARMIS reporting requirements that apply to the Bell Operating Companies only). Several commenters suggested completely eliminating ARMIS reporting for

⁴³² Trends in Telephone Service, Table 5.3, Number of Telecommunications Service Providers That are Small Businesses (Industry Analysis Division, Common Carrier Bureau, August 2001).

⁴³³ *Id.*

⁴³⁴ See footnote 423, *supra*.

⁴³⁵ 5 U.S.C. § 603(c).

⁴³⁶ See Report and Order at ¶¶ 190-192.

⁴³⁷ See *id.* at ¶¶ 193-198.

mid-sized carriers.⁴³⁸ The Commission rejected that alternative primarily due to the need to obtain information used to compute non-rural carrier universal service high-cost support. The Commission retains the requirement that mid-sized carriers file the ARMIS 43-01 and 43-08 Reports. Data in these reports are used to develop inputs to the high cost model for universal service purposes and develop inputs to models used to determine forward-looking economic costs in UNE ratemaking proceedings.

250. *Report to Congress.* The Commission's Consumer Information Bureau, Reference Information Center shall include a copy of this Report and Order and Final Regulatory Flexibility Analysis in a report to be sent to Congress pursuant to the Congressional Review Act.⁴³⁹ In addition, the Commission will send a copy of the Report and Order, including the Final Regulatory Flexibility Analysis, to the Chief Counsel for Advocacy of the Small Business Administration. A copy of the Report and Order, including the Final Regulatory Flexibility Analysis (or summaries thereof) will also be published in the Federal Register.⁴⁴⁰

B. Initial Regulatory Flexibility Analysis

251. As required by the Regulatory Flexibility Act (RFA),⁴⁴¹ the Commission has prepared this present Initial Regulatory Flexibility Analysis (IRFA) of the possible significant economic impact on small entities by the policies and rules proposed in this Further Notice of Proposed Rulemaking (Further Notice). Written public comments are requested on this IRFA. Comments must be identified as responses to the IRFA and must be filed by the deadlines for comments on this Further Notice, which are set out in paragraphs 226-230 of the Report and Order and Further Notice of Proposed Rulemaking. The Commission will send a copy of this Further Notice, including this IRFA, to the Chief Counsel for Advocacy of the Small Business Administration (SBA).⁴⁴² In addition, this Further Notice and IRFA (or summaries thereof) will be published in the Federal Register.⁴⁴³

252. *Need for, and Objectives of, the Proposed Action.* The Commission has initiated this Further Notice to seek comment on whether we should sunset our accounting and reporting rules; whether ARMIS information, particularly infrastructure data, would be better captured in the Local Competition and Broadband Data Gathering Program instead of through ARMIS; eliminating or streamlining our rules for continuing property records and our affiliate transactions rules; and what, if any, conforming amendments the Commission should make to its Part 36 rules to reflect the revisions to the Part 32 rules set forth in the attached Report and Order. The first issue, which discusses in general terms sunseting our accounting rules, would not increase the reporting or recordkeeping requirements for small entities. The third and fourth issues, regarding streamlining or eliminating our continuing property records rules and our affiliate transactions rules, would probably not significantly affect small entities. Our proposals in these two areas would, if adopted, result in decreasing recordkeeping requirements and reducing the number of fair market value estimations. The fifth issue merely seeks to conform Part 36 to the rule changes adopted in the Report and Order. The second issue, however, would probably impact small entities. The second issue addresses the means by which the Commission collects ARMIS data, particularly infrastructure data. The Commission seeks comment on whether such collection should be implemented through the Local Competition and Broadband Data Gathering Program instead of through ARMIS. Under the Local Competition and Broadband Data Gathering Program, facilities-based service providers with at least 250 full or one-way

⁴³⁸ See *id.* at ¶ 193.

⁴³⁹ See 5 U.S.C. § 801(a)(1)(A).

⁴⁴⁰ See 5 U.S.C. § 604(b).

⁴⁴¹ See 5 U.S.C. § 603. The RFA, *see* 5 U.S.C. § 601 *et. seq.*, has been amended by the Contract With America Advancement Act of 1996, Pub. L. No. 104-121, 110 Stat. 847 (1996) (CWAAA). Title II of the CWAAA is the Small Business Regulatory Enforcement Fairness Act of 1996 (SBREFA).

⁴⁴² See 5 U.S.C. § 603(a).

⁴⁴³ See *id.*

broadband lines or wireless channels in a given state complete applicable portions of the Form 477 for that state and local exchange carriers with 10,000 or more local telephone service lines, or fixed wireless channels, in a state must complete the applicable portions of the Form 477 for each state in which they serve 10,000 or more subscribers. This is a larger group of service providers than the 30 mandatory price cap LECs that file infrastructure reporting requirements.⁴⁴⁴ The objective for this proposed action – to collect this data from smaller companies, in addition to the Bell Operating Companies – would be to give the Commission more information about the infrastructure of these companies.

253. *Legal Basis.* The legal basis for the action as proposed for this rulemaking is contained in sections 1-5, 10, 11, 201-205, 215, 218-220, 251-271, 303(r), 332, 403, 502, and 503 of the Communications Act of 1934, as amended, 47 U.S.C. §§ 151-155, 160, 161, 201-205, 215, 218-220, 251-271, 303(r), 332, 403, 502, and 503.

254. *Description and Estimate of the Number of Small Entities to which the Proposed Action May Apply.* The Commission seeks comment on whether it should revise its rules so that data collection in ARMIS, particularly infrastructure data, should be collected pursuant to the Local Competition and Broadband Data Gathering Program. Under the Local Competition and Broadband Data Gathering Program, facilities-based service providers with at least 250 full or one-way broadband lines or wireless channels in a given state complete applicable portions of the Form 477 for that state. In addition, local exchange carriers with 10,000 or more local telephone service lines, or fixed wireless channels, in a state must complete the applicable portions of the Form 477 for each state in which they serve 10,000 or more subscribers. Currently, 30 mandatory price cap LECs file infrastructure reporting requirements.⁴⁴⁵ Fifty-two LECs file the financial ARMIS reports.⁴⁴⁶ Additional LECs are subject to service quality reporting requirements.⁴⁴⁷ Thus, if ARMIS information were captured pursuant to the Local Competition and Broadband Data Gathering Program, the data would be collected from more entities than from which the ARMIS data are collected today.⁴⁴⁸ The Commission sets out below a description of the types of entities that could possibly be required to comply with the proposed reporting

255. The RFA directs agencies to provide a description of and, where feasible, an estimate of the number of small entities that may be affected by the proposed rules, if adopted.⁴⁴⁹ To estimate the number of small entities that may be affected by the proposed rules, we first consider the statutory definition of "small entity" under

⁴⁴⁴ There are 30 mandatory price cap incumbent LECs that are subject to ARMIS customer satisfaction and infrastructure reporting requirements. They are Verizon (19 operating companies); SBC (9 operating companies); BellSouth (1 operating company); and Qwest (1 operating company).

⁴⁴⁵ There are 30 mandatory price cap incumbent LECs that are subject to ARMIS customer satisfaction and infrastructure reporting requirements. They are Verizon (19 operating companies); SBC (9 operating companies); BellSouth (1 operating company); and Qwest (1 operating company).

⁴⁴⁶ Specifically, 52 incumbent LECs have annual operating revenues exceeding the indexed revenue threshold and file financial ARMIS reports. These incumbent LECs include the operating companies of Verizon (19 operating companies); SBC (9 operating companies); BellSouth; and Qwest. The other 22 incumbent LECs are considered mid-sized carriers. They are Cincinnati Bell (1 operating company), C-TEC (1 operating company), Sprint (13 operating companies), ALLTEL (5 operating companies), and Citizens Communications (2 operating companies). Unless granted a waiver or extension, Roseville and CenturyTel will be required to file certain ARMIS reports this year. The attached Report and Order reduces the ARMIS filing requirements for mid-sized carriers, but does not eliminate all ARMIS filing for these carriers.

⁴⁴⁷ There are 93 price cap LECs subject to service quality reporting requirements. They are Verizon (19 operating companies); SBC (9 operating companies); BellSouth (1 operating company); Qwest (1 operating company); Sprint (17 operating companies); Citizens Communications (45 operating companies); and Cincinnati Bell (1 operating company).

⁴⁴⁸ As of December 31, 2000, incumbent LECs filed 165 state reports and CLECs filed 86 state reports, for a given state. In addition, wireless carriers filed 77 state reports, for a given state, as of December 31, 2000. See Local Telephone Competition: Status as of December 31, 2000 (Industry Analysis Division, Common Carrier Bureau, May 2001).

⁴⁴⁹ 5 U.S.C. § 603(b)(3).

the RFA. The RFA generally defines "small entity" as having the same meaning as the term "small business," "small organization," and "small governmental jurisdiction."⁴⁵⁰ In addition, the term "small business" has the same meaning as the term "small business concern" under the Small Business Act, unless the Commission has developed one or more definitions that are appropriate to its activities.⁴⁵¹ Under the Small Business Act, a "small business concern" is one that: (1) is independently owned and operated; (2) is not dominant in its field of operation; and (3) meets any additional criteria established by the SBA.⁴⁵² Recently, the SBA has defined a small business for "wired telecommunications carriers," "paging," "cellular and other wireless telecommunications," and "telecommunications resellers" to be small entities when they have no more than 1,500 employees.⁴⁵³

256. The most reliable source of information regarding the total numbers of common carrier and related providers nationwide, as well as the numbers of commercial wireless entities, appears to be data derived from filings made in connection with the Telecommunications Reporting Worksheet (FCC Form 477).⁴⁵⁴ According to data in the most recent report, there are 4,822 interstate service providers.⁴⁵⁵ These providers include, *inter alia*, local exchange carriers, wireline carriers and service providers, interexchange carriers, competitive access providers, operator service providers, pay telephone operators, providers of telephone toll service, providers of telephone exchange service, and resellers.

257. We have included small incumbent LECs⁴⁵⁶ in this present RFA analysis. As noted above, a "small business" under the RFA is one that, *inter alia*, meets the pertinent small business size standard (*e.g.*, a telephone communications business having 1,500 or fewer employees), and "is not dominant in its field of operation."⁴⁵⁷ The SBA's Office of Advocacy contends that, for RFA purposes, small incumbent LECs are not dominant in their field of operation because any such dominance is not "national" in scope.⁴⁵⁸ We have therefore included small incumbent LECs in this RFA analysis, although we emphasize that this RFA action has no effect on Commission analyses and determinations in other, non-RFA contexts.

258. Total Number of Telephone Companies Affected. The Commission's Industry Analysis Division of the Common Carrier Bureau compiles a report, Trends in Telephone Service, based on data from various sources, including the FCC Form 499-A worksheets filed by telecommunications carriers. According to Trends in Telephone Service, there were 4,822 service providers filing the FCC Form 499-A on April 1, 2000. Of these carriers, 3,875 had, in combination with affiliates, 1,500 or fewer employees and 947 had, in combination with

⁴⁵⁰ 5 U.S.C. § 601(6).

⁴⁵¹ 5 U.S.C. § 601(3) (incorporating by reference the definition of "small business concern" in 15 U.S.C. § 632). Pursuant to 5 U.S.C. § 601(3), the statutory definition of a small business applies "unless an agency after consultation with the Office of Advocacy of the Small Business Administration and after opportunity for public comment, establishes one or more definitions of such term which are appropriate to the activities of the agency and publishes such definition in the Federal Register."

⁴⁵² 15 U.S.C. § 632. *See, e.g., Brown Transport Truckload, Inc. v. Southern Wipers, Inc.*, 176 B.R. 82 (N.D. Ga. 1994).

⁴⁵³ 13 C.F.R. § 121.201, NAICS codes 51331, 51333, 51322, and 51321.

⁴⁵⁴ FCC, *Carrier Locator: Interstate Service Providers*, Table 1 (Oct. 2000) (*Carrier Locator*).

⁴⁵⁵ *Carrier Locator* at Table 1.

⁴⁵⁶ *See* 47 U.S.C. § 251(h) (defining "incumbent local exchange carrier").

⁴⁵⁷ 5 U.S.C. § 601(3).

⁴⁵⁸ Letter from Jere W. Glover, Chief Counsel for Advocacy, SBA, to William E. Kennard, Chairman, FCC (May 27, 1999). The Small Business Act contains a definition of "small business concern," which the RFA incorporates into its own definition of "small business." *See* 15 U.S.C. § 632(a) (Small Business Act); 5 U.S.C. § 601(3) (RFA). SBA regulations interpret "small business concern" to include the concept of dominance on a national basis. 13 C.F.R. § 121.102(b).

affiliates, more than 1,500 employees.⁴⁵⁹ These numbers contains a variety of different categories of carriers, including local exchange carriers, interexchange carriers, competitive access providers, cellular carriers, mobile service carriers, operator service providers, pay telephone operators, personal communications service (PCS) providers, covered specialized mobile radio (SMR) providers, and resellers. It seems certain that some of those telephone service firms may not qualify as small entities or small incumbent LECs because they are not "independently owned and operated."⁴⁶⁰ For example, a PCS provider that is affiliated with an interexchange carrier having more than 1,500 employees would not meet the definition of a small business. It seems reasonable to conclude, therefore, that fewer than 3,875 telephone service firms are small entity telephone service firms or small incumbent LECs that may be affected by the decisions and rules proposed in the Further Notice.

259. Wireline carriers (incumbent LECs). According to Trends in Telephone Service, there were 1,335 incumbent local exchange carriers filing the FCC Form 499-A on April 1, 2000. Of these carriers, 1,037 had, in combination with affiliates, 1,500 or fewer employees and 298 had, in combination with affiliates, more than 1,500 employees.⁴⁶¹ Some of these carriers may not be independently owned or operated, but we are unable at this time to estimate with greater precision the number of wireline carriers that would qualify as small business concerns under SBA's definition. Consequently, we estimate that there are fewer than 1,037 wireline small entities that may be affected by the decisions and rules proposed in the Further Notice.

260. Other wireline carriers (other than incumbent LECs). According to Trends in Telephone Service, there were 496 fixed local service providers, other than incumbent LECs, filing the FCC Form 499-A on April 1, 2000. Of these carriers, 439 had, in combination with affiliates, 1,500 or fewer employees and 57 had, in combination with affiliates, more than 1,500 employees.⁴⁶² These companies include competitive access providers, competitive local exchange providers, resellers, and other local exchange carriers. Some of these carriers may not be independently owned or operated, but we are unable at this time to estimate with greater precision the number of wireline carriers (other than incumbent LECs) that would qualify as small business concerns under SBA's definition. Consequently, we estimate that there are fewer than 439 wireline small entities (other than incumbent LECs) that may be affected by the decisions and rules proposed in the Further Notice.

261. Wireless telecommunications service providers. According to Trends in Telephone Service, there were 1,495 wireless service providers filing the FCC Form 499-A on April 1, 2000. Of these carriers, 989 had, in combination with affiliates, 1,500 or fewer employees and 506 had, in combination with affiliates, more than 1,500 employees.⁴⁶³ The wireless service providers include cellular, PCS, SMR, paging and messaging service, SMR dispatch, wireless data service providers, and other mobile service providers. Some of these carriers may not be independently owned and operated; however, we are unable at this time to estimate with greater precision the number of wireless carriers and service providers that would qualify as small business concerns under SBA's definition. Consequently, we estimate that there are fewer than 989 small entity "cellular and other wireless telecommunications" providers that may be affected by the rules proposed in the Further Notice.

262. Payphone service providers. According to Trends in Telephone Service, there were 758 payphone service providers filing the FCC Form 499-A on April 1, 2000. Of these carriers, 755 had, in combination with

⁴⁵⁹ Trends in Telephone Service, Table 5.3, Number of Telecommunications Service Providers That are Small Businesses (Industry Analysis Division, Common Carrier Bureau, August 2001).

⁴⁶⁰ 15 U.S.C. § 632(a)(1).

⁴⁶¹ Trends in Telephone Service, Table 5.3, Number of Telecommunications Service Providers That are Small Businesses (Industry Analysis Division, Common Carrier Bureau, August 2001).

⁴⁶² *Id.*

⁴⁶³ *Id.*

affiliates, 1,500 or fewer employees and 3 had, in combination with affiliates, more than 1,500 employees.⁴⁶⁴ Some of these companies may not be independently owned and operated; however, we are unable at this time to estimate with greater precision the number of payphone service providers that would qualify as small business concerns under SBA's definition. Consequently, we estimate that there are fewer than 755 small entity payphone service providers that may be affected by the rules proposed in the Further Notice.

263. Toll service providers. According to Trends in Telephone Service, there were 738 toll service providers filing the FCC Form 499-A on April 1, 2000. Of these carriers, 656 had, in combination with affiliates, 1,500 or fewer employees and 82 had, in combination with affiliates, more than 1,500 employees.⁴⁶⁵ The toll service providers include interexchange carriers, operator service providers, prepaid calling card providers, satellite service providers, toll resellers, and other toll carriers. Some of these carriers may not be independently owned and operated; however, we are unable at this time to estimate with greater precision the number of toll service providers that would qualify as small business concerns under SBA's definition. Consequently, we estimate that there are fewer than 656 small entity toll service providers that may be affected by the rules proposed in the Further Notice.

264. *Description of Proposed Reporting, Recordkeeping, and Other Compliance Requirements.* The Further Notice seeks comment on whether ARMIS information, particularly infrastructure data, would be better captured in the Commission's *Local Competition and Broadband Data Gathering Program*. Pursuant to the current *Local Competition and Broadband Data Gathering Program*, certain providers of broadband services and of local telephone services must complete FCC Form 477, which collects data on their deployment of those services.⁴⁶⁶ Specifically, under the *Local Competition and Broadband Data Gathering Program*, facilities-based service providers with at least 250 full or one-way broadband lines or wireless channels in a given state complete applicable portions of the FCC Form 477 for that state. In addition, local exchange carriers with 10,000 or more local telephone service lines, or fixed wireless channels, in a state must complete the applicable portions of the Form 477 for each state in which they serve 10,000 or more subscribers. These reporting entities may include more companies than the incumbent LECs currently reporting in ARMIS.

265. Currently, 30 mandatory price cap LECs, the operating companies of Verizon, BellSouth, SBC, and Qwest, file infrastructure reporting requirements. The financial ARMIS reports are filed by 52 local exchange carriers.⁴⁶⁷ Additional LECs are subject to service quality reporting requirements; however, service quality reporting issues are not addressed in this proceeding.⁴⁶⁸ Thus, if ARMIS information were captured pursuant to the *Local Competition and Broadband Data Gathering Program*, the data may be collected from more entities than from which the ARMIS data is collected today.⁴⁶⁹ The Further Notice also seeks comment on whether the data discussed in paragraphs 67, 160, and 167 of the attached Report and Order should be captured in the *Local Competition and Broadband Data Gathering Program*, instead of ARMIS.

⁴⁶⁴ *Id.*

⁴⁶⁵ *Id.*

⁴⁶⁶ See Local Competition and Broadband Reporting, CC Docket No. 99-301, *Report and Order*, 15 FCC Rcd 7717 (2000) (*Data Gathering Order*).

⁴⁶⁷ The operating companies of Verizon (19 operating companies); SBC (9 operating companies); BellSouth; and Qwest. The other 22 incumbent LECs (mid-sized carriers) are Cincinnati Bell (1 operating company), C-TEC (1 operating company), Sprint (13 operating companies), ALLTEL (5 operating companies), and Citizens Communications (2 operating companies). The attached Report and Order reduces the ARMIS filing requirements for mid-sized carriers, but does not eliminate all ARMIS filing for these carriers.

⁴⁶⁸ There are 93 price cap LECs subject to service quality reporting requirements. They are Verizon (19 operating companies); SBC (9 operating companies); BellSouth (1 operating company); Qwest (1 operating company); Sprint (17 operating companies); Citizens Communications (45 operating companies); and Cincinnati Bell (1 operating company).

⁴⁶⁹ See footnote 448, *supra*.

266. *Steps Taken to Minimize Significant Economic Impact on Small Entities, and Significant Alternatives Considered.* The RFA requires an agency to describe any significant alternatives that it has considered in reaching its proposed approach, which may include the following four alternatives (among others): (1) the establishment of differing compliance or reporting requirements or timetables that take into account the resources available to small entities; (2) the clarification, consolidation, or simplification of compliance or reporting requirements under the rule for small entities; (3) the use of performance, rather than design, standards; and (4) an exemption from coverage of the rule, or any part thereof, for small entities.⁴⁷⁰

267. The Further Notice seeks comment on whether the Commission should sunset the accounting and reporting rules; whether ARMIS information, particularly infrastructure data, would be better captured in the *Local Competition and Broadband Data Gathering Program* instead of through ARMIS; and what, if any, conforming amendments the Commission should make to its Part 36 rules to reflect the revisions to the Part 32 rules set forth in the attached Report and Order. The first, third, and fourth issues, which seek comment on reducing accounting and reporting requirements in the future and discusses sunseting accounting rules and reporting requirements, would not increase reporting or recordkeeping requirements for small entities. The fifth issue merely seeks to conform Part 36 to the rule changes adopted in the Report and Order. This is needed due to the consolidation of several Class B accounts that are also used in Part 36. The alternative to conforming our Part 36 rules would be not to streamline the Part 32 rules. Without the Part 32 rule changes, there would be no need to conform the Part 36 rules. The Part 32 rule changes in the attached Report and Order, however, represent a significant reduction in both Class A and Class B accounts. Therefore, conforming amendments to the Part 36 jurisdictional separations rules would be a result of the consolidation of Part 32 accounts and should not be a significant economic impact on small entities.

268. The data collection issue, however, would probably have a reporting and recordkeeping requirement small entities. This issue addresses the means in which the Commission collects ARMIS data, particularly infrastructure data. The Commission seeks comment on whether such collection should be implemented through the *Local Competition and Broadband Data Gathering Program* instead of through ARMIS. Currently, the *Local Competition and Broadband Data Gathering Program* does not collect infrastructure data, and any rule change adopted to expand that program in order to collect data currently collected in ARMIS may involve information collection from more entities, including small entities. With respect to minimizing the significant economic impact on small entities, the Commission could reduce the data requested from the rows currently reported in the relevant ARMIS reports. Any such reporting on the part of small entities would, however, be an increase over the current reporting requirement, as these entities do not currently report ARMIS infrastructure data at all. With respect to significant alternatives, the Commission could continue to collect such information in ARMIS. Currently, the infrastructure data in ARMIS 43-07 are collected from 30 mandatory price cap carriers (operating companies of Verizon, SBC, BellSouth, and Qwest.) The Commission does not collect this information from other, smaller entities. If the Commission does not adopt such a rule change, small entities will not be affected. Alternatively, the Commission could adopt the rule change but specify that the data collection applies only to the mandatory price cap companies. We seek comment on these options.

269. Federal Rules that may Duplicate, Overlap, or Conflict With the Proposed Rules. None.

⁴⁷⁰ 5 U.S.C. § 603(c).

